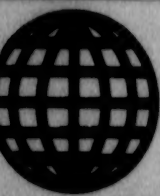


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# ***JPRS Report***

# **China**

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# China

JPRS-CAR-94-013

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24 February 1994

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### Prospects for Relations With Central Asia

94CM0022A Beijing XIANDAI GUOJI GUANXI  
[CONTEMPORARY INTERNATIONAL RELATIONS]  
in Chinese No 47, 20 Sep 93 pp 1-3

[Article by Xu Dan (1776 3225): "Reforming, Opening Up China, Central Asia"—First paragraph is editor's note.]

[Text] *The international research meeting "China and Central Asia: Development and Cooperation," sponsored by the China Contemporary International Relations Institute, was held in Beijing 9-10 August. Forty persons, including scholars and officials from Kazakhstan, Kyrgyzstan, Iran, and Turkey, as well as Chinese scholars, officials, and entrepreneurs, attended the meeting. To help the reader understand the relevant situation, we now introduce below the gist of the speeches, made by Xu Dan, deputy director of the China Contemporary International Relations Institute; the important statements made by (Kasianov), director, and (Aleinov), deputy director, of Kazakhstan's Strategic Research Institute, which is directly under the president; as well as the papers read out at the meeting by Zhao Chunguang [6392 4783 0342] of Mongolia's Northeast Asia Institute:*

#### I. China's Reform, Opening Up to the Outside World, Economic Situation

China's reform and opening up to the outside world has been going on for 15 years. It has caused fundamental changes in China's socioeconomic features, and has caused us to find the path of building socialism with China's characteristics. With Deng Xiaoping's important speech while inspecting the south in 1992 as the starting point, in China's economic development and its reform and opening up to the outside world, there has appeared a vigorous momentum with the following characteristics:

**First, China's economy has entered a new long period of high-speed growth.** Last year's Gross National Product (GNP) was 12.8 percent higher than that of the year before, and industrial production grew 20.8 percent. It was the year with the biggest growth since China's opening up to the outside world. In agriculture, a bumper harvest was wrested—a 3.7 percent increase over that of the year before last. In the first half of this year, the GNP grew 13.9 percent compared with that of the same period last year, and the gross value of industrial output grew 25.1 percent. In agriculture this year, summer grain set a high-output record. This momentum of high-speed growth did not happen by chance: It rests on the foundation of the results obtained by the three-year economic readjustment began in 1989. In this period there were bumper agricultural harvests in successive years, there was a big improvement in the capacity for supplying energy and raw materials, there were successive years of a surplus in foreign trade, there was a big increase in saving deposits, and successes were obtained in all

economic reforms. In addition, Comrade Deng Xiaoping's speech on his southern tour at the right time and the holding of the 14th CPC Congress gave China's economic development a looser and more comfortable policy and environment.

**Second, a major breakthrough was achieved in China's economic reform.** Last year's 14th CPC Congress proposed that the goal of China's economic reform be to establish a socialist economic system. This is a complex piece of social systems engineering, and its main parts are: 1) Accelerate the pace of economic reform and establish a modernized enterprise system, so that the enterprises truly establish a modernized enterprise system, so that the pace of price reform and establish a unified open, orderly competitive market system; 2) accelerate the transformation of government functions and establish a macro regulation and control system that meets the demand of socialist markets; and 3) accelerate economic legislation and establish a legal system that meets the needs of the socialist market economy.

**Third, China's opening up to the outside world has entered a new historical stage.** In the past it was mainly the southeast coastal region that was opened up to the outside world; now the opening up has expanded to riverine and border cities and to interior provincial capitals and cities, forming a new pattern in which from east to west, from south to north, with provincial capitals as the center, the opening up to the outside world radiates to surrounding areas in all directions. In 1992 China's import and export trade totaled \$165.6 billion, a 22 percent increase over that of the year before. Foreign businessmen invested \$1.116 billion in China; 470,000 of the three kinds of enterprises were approved for registration, exceeding the total for the past dozen or so years. In the first half of this year, China's import and export trade totaled \$77.81 billion, a 13.4 percent increase over that of the same period last year. This shows that China's political stability, social stability, and economic development filled with vitality have made foreign investors better understand that China is an ideal place for investment.

Currently, in China's economy, while there has been rapid growth, there have also appeared some fairly prominent problems, which are mainly manifested in: First, the scale of investment in fixed assets is too large, and there are too many newly built or rebuilt projects, causing a drop in macro investment results. Second, the financial and banking situation is fairly grim, and the contradiction between low financial income and high financial outgo has added to the difficulty of an imbalance between financial income and outgo. Third, the restraining factor of "bottlenecks" is prominent, that is, there is an overall strain on transport and communication, and the supply of raw materials does not meet the demand. The shortage of funds adversely affects the normal production and business activities of many enterprises. Fourth, price rises are too high, and the pressure of inflation has increased. The Chinese government's policy for solving these problems is not, as in the



pst, to adopt overall retrenchment, but rather, is, through deepening reform, changing mechanisms, optimizing structure, and improving returns, to ensure and promote the sustained, rapid, and healthy development of the national economy.

## **II. The Situation After Central Asian Countries Became Independent and the International Effect**

The countries of Central Asia have been independent or more than a year, and in most of them the situation is fairly stable; based on our observations, the factors causing this stability are many-sided. First, these countries have powerful leaders. Kazakhstan, Uzbekistan, Kyrgyzstan, and Turkmenistan have swiftly put into practice the presidential system, and the leaders enjoy fairly high prestige in their own countries; constitutions have been formulated, and the "democratic system" under the leadership of a president has been put on a legal basis. Second, for economic reform a policy of steady progress has been adopted, and "shock therapy" is not practiced. While reforming, each country has put into practice a social security system, thereby alleviating the difficulties in life encountered by urban and rural residents in the course of reform, and ensuring social stability. Third, each country has put in practice a policy of nationality harmony; in formulating this policy, the government, in the country's economic and political life, takes into consideration the balancing of interests among the nationalities and the maintaining of a harmonious coexistence of the nationalities. Fourth, a religious policy suited to the national condition has been put into practice. The people of Central Asia have now obtained the freedom of religious belief. Religions can be freely propagated in Central Asian countries, but the government of each country clearly stipulates that religious forces cannot participate in governmental and political affairs, and cannot adversely affect the political stability of the country. Because of the above conditions, the situation in the past more than one year has basically been one of stable development. However, the Central Asian countries are in a transitional period in which there is a turn in the situation, their economic difficulties are quite serious, and politically there are many latent factors for instability. Continued stability and development in the future will depend on great efforts by the governments of these countries.

After becoming independent, the Central Asian countries are daily enhancing and expanding their international position and influence, and Central Asia is becoming a region of interest and action by the international community. This is also determined by many factors: 1) Central Asia is located in that part of the world that binds together the European and Asian continents; it is the link between East and West, and its geographical position is extremely important. 2) Central Asia is a "treasure house of natural resources"; here there are abundant petroleum, natural gas, nonferrous metals, and other mineral resources. Some countries abound in cotton, and people call them "white gold

countries." 3) Surrounding Central Asia are some important countries with different social systems and different ideologies and religious beliefs. The Central Asian countries are building closer contacts and developing relations of friendship with these countries, thereby playing an important role in balancing the various forces. 4) The economic level of Central Asia is that of the developing countries, and it is an important force in the international community for maintaining peace and promoting justice.

## **III. Prospects for Cooperation Between China and Central Asian Countries**

Central Asia is a close neighbor of China's, and there are three Central Asian countries that border China; they are linked by common mountains and rivers, and the nationalities cross borders. As early as before the year 2000 or so, there will be a "Silk Road" that will directly link China and Central Asia. The Chinese government has rapidly established formal diplomatic relations with these countries, and has invited their leaders to visit China; has established a basis on the five principles of peaceful coexistence to develop relationships of equality and mutual benefit, good neighborliness and friendship; and has signed in many fields documents for carrying out contacts and cooperation. In many aspects there is an identity of interests between China and the Central Asian countries, and there could be a further deepening of cooperation and a wider development of relations.

**A. In the political aspect, the identity of goals between the Central Asian countries and China gives hope for maintaining peaceful, stable internal and international environments.** This is because the Central Asian countries now face many arduous tasks: politically, they must consolidate independence; economically, they must overcome the serious difficulties encountered after independence; internally, they must give impetus to reform, open up to the outside world, and ensure the tranquil life of all people in the country. All of this must be done under conditions of international peace. China is deepening its reform and expanding its opening up to the outside world. Therefore, with China's and Central Asia's security interests being identical, they can cooperate hand in hand, both striving for the long-term security of their own lands and working in common to create world peace and a rational new order.

**B. In the economic aspect, the complementary nature of China and the Central Asian countries is very large, and the potential for them in this respect is far from being displayed.** The superiority of the Central Asian countries lies in their abundant natural resources, a certain industrial base, and a gradually forming vast market. Their weak point is that they have a one-product economy, and they must import from abroad articles for use in industry and articles for daily use, and must import foreign capital and technology to develop processing industries and to exploit natural resources. At the same time Central Asia is an inland region; it lacks seaports, and its land communication depends on enhancement of its



cooperation with surrounding neighbor countries. Because it has had more than 10 years of successful reform and opening up to the outside world, China has established a diversified industry with complete categories. It has a very strong capability in its processing industries, and it can export large amounts of light industry and textile, electronic, and daily-use products. Its building, mining, agricultural and plantation technologies have entered the world ranks, and it possesses the conditions for wider economic cooperation. The economic and trade cooperation between China and Central Asia is just beginning, and it may be conjectured that there are vast prospects for its development. China is accelerating its opening up to the outside world and its construction of its western inland and border regions, with the focus on developing the infrastructure for communication and transportation. In the next three years China will invest 8 billion yuan in newly building or rebuilding the railroad network in its northwest region. From now until the year 2000, China will build some trunk lines of a high-grade national highway that will crisscross the country east, west, south, and north. This will be advantageous to China's internal unblocked transportation, and will be even more convenient for enhancing its cooperation with neighboring countries. China and Central Asia also have more conditions to put

into effect a joint communication network, thereby causing the renewal of the Silk Road to become a reality.

**C. In international affairs, China and the Central Asian countries have many common points.** We belong to the developing countries and our fundamental interests are identical. The contacts, talks, and meetings of leaders of our countries prove that, on many major international issues, the Central Asian countries and China have identical views and positions and have similar stands. The position and role of Central Asian countries in international affairs are growing daily, and the relations of cooperation in foreign affairs between China and the Central Asian countries are becoming closer and closer. In the new structure of the pluralistic world, China and the Central Asian countries both qualify to become active participants in establishing a just and rational new international order.

In brief, China and the Central Asian countries in political affairs should become models of countries with different social systems coexisting in peace for long periods of time and being good neighbors and friends; in culture, science and technology should become friends who learn from each other and who advance together; and in international affairs should become positive forces for maintaining peace and stability and for establishing a just, rational new world order.

**Paper Interviews College Students on Mao**

94CM0123A Beijing DAXUESHENG [UNIVERSITY STUDENTS] in Chinese No 12, 10 Dec 93 pp 20-22

[Article by reporters Chen Jianxiang (7115 0494 4382) and Zhao Hong (6392 4767): "DAXUESHENG Questionnaire Survey of 1,500 Students: What Do the 'New Collegians' Know About Mao Zedong?" The first segment in italics is a source-supplied introduction.]

[Text] *They were born in the mid-1970's, at a time when Chairman Mao Zedong and his comrades-in-arms were passing away one by one and the republic was going through a most difficult period.*

They grew up in a brand new era. All of the bygone glories, emotions, absurdities, and pains were but far away fairy tales.

Today, they have grown up; they are going to college.

They no doubt are a generation that straddles two centuries, destined to be the masters of the republic in the next century.

For the moment, we shall call them the "new collegians."

Mao Zedong's passing and the birth of the "new collegians" seemed to coincide, like two wheels on the same track, two consecutive pages on the calendar. There was no overlap, no repetition.

Thus, the issue of how much the "new collegians" know about Mao Zedong has become especially meaningful and valuable, and perhaps interesting. With the forthcoming 100th anniversary of the Chairman's birth, DAXUESHENG has handed out 1,500 copies of questionnaires to students in 15 colleges in the capital and in Hunan. Most of those polled were college students born after 1976; the oldest among them were born in 1974.

**Once a Household Name, But No Longer Common Knowledge Today**

**Thirty-four percent do not know his place of birth, 65 percent do not know the date of his birth or death, and 35 percent have never read Mao Zedong's books.**

An earth-tone peasant cottage located south of the Chang Jiang River, surrounded by green hills, and behind the hills, the red sun is slowly rising: This was a very familiar picture for every Chinese in the old days. It once appeared in many newspapers, magazines, and text books. Everybody could tell by sight that it was the great leader Chairman Mao's home in Shaoshan [7300 1472], the holy land of the revolution, the place of the rising sun. This was a widely-known, ever so simple, common knowledge, just like everybody knows that our homeland is China and our capital is Beijing, not to mention that countless hot-blooded youths had at one time come from all directions just to look at this place for themselves.

Our survey clearly showed, however, that 34 percent of the "new collegians" did not know Mao Zedong's place

of birth. Some did not have the faintest idea; Some could barely recall reading or hearing about it, but their answers could not be more wrong: For example, they put down "Hunan Shaoguan," "Zhaoshan," "Shaoshan [4801 1472]," "Hunan Shaoxing," "Hunan Xiangtan Maojiaping," and so on. One knows not whether to laugh or cry.

Another equally common knowledge is Mao Zedong's dates of birth and death—26 December 1893 and 9 September 1976, respectively. Most older people remember those dates, especially the latter; it was a day engraved on their bones and hearts. Those who lived through the period say that those days still leap up vividly before their eyes. Yet, 65 percent of the "new collegians" cannot recall those two special dates.

*Quotations From Mao Zedong*, a product of a specific historic era, was at one time intimately tied to the lives of every Chinese. It was not long ago that even the very old and the very young could recite passages from the *Quotations From Mao Zedong*. But among the "new collegians," 8 percent have never heard of it, 49 percent have never seen it, and 58 percent cannot write down a passage attributed to Mao. Some are confused and mistake the following for *Quotations From Mao Zedong*: "Sailors of the great seas are dependent on the helmsman"; "fear not ten thousand, but guard against the unexpected"; and "one statement can refute ten thousand."

Another notable phenomenon is that among those who could quote Mao, 43 percent put down such famous revolutionary sayings as "seize the revolution; promote production"; "dig in; stock grain"; "never forget the class struggle"; "resort to verbal struggle, not armed struggle"; "Chen Yi is a good comrade." While we admire the power of the era of compressed words, we cannot help but worry: Mao Zedong thoughts are a spiritual wealth; they should not be simplified, distorted, and even forgotten so soon.

Perhaps they do not really prove anything. Ignorance of general knowledge may not hinder deeper understanding of other concepts. So in our questionnaire, we asked two questions about the books people read. Similarly, the result leaves us no room for optimism: thirty-two percent of the students have never read books about Mao Zedong. Among the books they have read, most have been published in recent years, including *Mao Zedong Who Stepped Down From the Shrine*, *Two Sides of the Red Wall*, *The Mystery of Mao Zedong* and other historical anecdote-type popular literature, while literary works by experts and scholars have much been ignored. When answering the question "Which Mao Zedong essay or poem have you read?", most students cited works reprinted in text books, such as "Qinyuan Spring—Snow," "Oppose Party Stereotyping," and "Changing the Way We Study." Outside of the textbook essays, few have read such well-known philosophical writings as "On Contradictions" and "On Practice." Counting those who have studied and those who have

just skimmed through the book, only 141, less than 10 percent, said they have read *Selected Works of Mao Zedong*.

Relatively speaking, college students in Hunan know a little bit more about Mao Zedong than those in Beijing. This naturally has to do with Hunan being the Chairman's hometown and people there have a special relationship with him. It is also because of the geographical location. Reportedly, Xiangtan University still organizes student field trips to Shaoshan every year, and there are quite a few "Mao Zedong fans" among the students.

But there is no denying the fact that, overall, this generation's college students are slowly forgetting Mao Zedong.

Only three years ago, this journal reported on a fad among the college students—"looking for Mao Zedong." In the post-strike campuses back then, the students had just emerged from their perplexed and exhausted state and were beginning to re-evaluate and to look for their own spiritual support, and a phenomenon of studying Mao Zedong's works and biographies began to appear. But college campuses have always been a mobile, changeable "camp ground"; every year's students have their own characteristics. Three years have gone by, when these so called "new collegians" entered college, things have changed. We cannot help but worry: What will happen to the questionnaires in another three years, 10 years, or 30 years?

#### **In the Minds of the "New Collegians" There Is No God Man is man. Why even ask the question?**

He had performed meritorious services, but he should never have criticized Ma Yinchu.

He uprooted China's economic tree, just to see if there were little worms.

Those who lived through the Mao Zedong era inevitably coat their criticism of Mao with an emotional overtone. The workers and the peasants, the intellectuals, the "three old graduating classes" [laosanjie], the red guards, and the "five black classes"—landlords, rich peasants, counterrevolutionaries, bad elements, and rightists—people of different professions, from different classes, of different ages, with different experiences, and from different family backgrounds have different emotions about Mao. Except in strict academic studies or under very formal circumstances, when people talk about Mao Zedong, they inevitably mix in their personal feelings. They may worship him or hate him; they may be very critical or lenient; they may be obedient or rebellious. In short, it seems nobody can be truly fair or objective.

On the other hand, during the Cultural Revolution, people once worshipped Mao zealously and almost religiously and took part in large-scale movements to turn him into a god. This movement lasted a decade. Its marks cannot be easily erased. It deeply affected the

psyche of every Chinese man and woman, and even today, in the hearts of many, Mao Zedong is still a mysterious figure, a "god" that appeared only once every 500 years. This is clearly shown in the way the older citizens put up, and worship Mao Zedong's picture. Furthermore, catering to the masses, some tasteless publications have played up idealist things like *The Mystery of 9 September* and *The Mystery of 8341*, adding to the people's misconceptions. On one occasion, people cried out in horror that "social opinion has returned Mao Zedong to the shrine!"

These do not seem to have an effect on the "new collegians." They are able to assess Mao Zedong more objectively and calmly. The survey showed that 94 percent of the students thought of Mao Zedong as a man; some even said they did not comprehend the question. They said that a man is a man; pure and simple. Why ask questions? Some put down in the questionnaire: In our generation, there is no "god"!

They fully accept the magnificent, indestructible things Mao Zedong had accomplished as the founder of the republic, but they are not afraid to recount what they think are Mao Zedong's mistakes. Although some viewpoints may be naive and biased, they are not blindly following others nor echoing someone else's viewpoints; they are not quoting the same old cliches.

"Mao Zedong indeed accomplished a lot, but he should never have criticized Ma Yinchu, there are a lot of people like that now."

"His mistake was that he did not cleanly walk away from it all when he should."

"He liberated China, saving 400 million people. He mobilized the Cultural Revolution, ruining 800 million citizens."

"He forgot that one can conquer the world but one cannot rule the world on horseback."

"He uprooted China's economic tree, just to see if it has little worms."

"Stemming from the romantic and idealistic disposition of a poet, he treated the construction of China as a great poem. But this is not a poem after all."

These strange and novel ideas of the "new collegians" will never appear in any official document or history textbook.

#### **This Is a Free-Thinking Bunch; We Have Eyes of Our Own**

I most admire his leadership style that embodied the characteristics of a politician, strategist, philosopher, and poet.

I admire his ability to swim across the Changjiang River at age 76.

I do not admire him.



The "new collegians" have no historical burden, no bondage of outmoded conventions and bad customs, and at the same time, they have fine qualities and a good education, and therefore they have a vivid mind, sharp eyes, unique thinkings, and unconventional ideas. We became keenly aware of these in the course of analyzing the questionnaires and during the informal discussions.

On the question "For what do you most admire Mao Zedong?", we received many different answers which fully reflected the students' vivid minds and their diverse choices. They cited his military talents—his ability to devise strategies on the spot and execute commands with ease, his political talents—his farsightedness and ability to make important decisions, his personal charisma—his openheartedness and selflessness, and his powerful, natural literary style and poetic talents.

Some wrote, "I most admire Mao Zedong's leadership style that embodies the characteristics of a statesman, strategist, philosopher, and poet"; "I most admire his sacrificing eight of his relatives for the sake of the revolution"; "I most admire his will in resisting outside pressure"; "I most admire his ability to swim across the Changjiang River at age 76"; "I most admire his embodiment of the romanticism of a poet and the strong and sensible spirit of the sons and daughters of the peasantry." "I most admire his unusual lifestyle."

We separated the answers into general categories, and data showed that personal charisma, political talent, military ability, and literary ability and knowledge each accounted for about 20 percent; there was no special concentration in any one category.

Meanwhile, some people frankly said, I do not admire him!

This is not an isolated answer. A decade or so ago, this would have amounted to treason and heresy. Those who uttered those words could have been branded "active counterrevolutionaries." Times have changed. We have said goodbye to the Don Quixote era of making "class struggle the key link." Although the question of whether Mao Zedong was admirable should be explored and debated, we must first be willing to accept different viewpoints. A society that respects choice is a civilized and progressive society.

A coed at the Hunan Normal University said with self-confidence, "I have eyes of my own. I use my own eyes to judge all things, including Mao Zedong."

This is the "new collegian," a rising new generation.

#### **We Are Concerned About the Present; We Are the Generation Holding the Relay Baton**

**Mao Zedong made the Chinese people stand up; Deng Xiaoping made the Chinese people rich.**

"Mao Zedong craze" was a reflection of the people's spiritual needs in a changing society.

Are economic development and deteriorating social standards two extremes without compromise?

A Beijing Aeronautical Engineering Institute student asked us in all sincerity, "Why are we always quibbling over the rights and wrongs of our predecessors? Should we not make better use of the time to get things accomplished instead?"

True, if history is like a relay race, then regardless of whether those who ran before us were a success or a failure, the relay baton has been passed into our hands, and the important thing now is to run our own leg and hand the baton to those who come after us with a clear conscience. We discuss and ponder over the successes and failures of our predecessors just to find out what we can and to learn what can be learned. Our focus is still on the present.

When talking about the first generation leader, Mao Zedong, people cannot help but think of the second generation leader, Deng Xiaoping. In our questionnaire, we asked, "Do you find anything in common between the two great men, Mao Zedong and Deng Xiaoping?" On this, the "new collegians" have their own opinions on the two leaders' politics, strategies, and personalities: "They were farsighted and brilliant; they refused to be confined by old conventions and dared to speak what other people dared not speak"; "they understood China and the Chinese people very well"; "they were concerned about the people's pains"; "they each created an era of their own in China. Mao Zedong made the Chinese people stand up, and Deng Xiaoping made the Chinese people rich."

On the "Mao Zedong craze" in recent years, the "new collegians" have different opinions. A majority viewpoint is that it is a reflection of the people's spiritual need in a changing society. People are dissatisfied with the adverse phenomena that accompany reform and open up: corruption, unfair distribution, poor social morals, the tendency to put money above everything else, and the erosion of human relationship. Some people are at a loss spiritually; they know not what to do. They miss the clean, honest, and simple life of the Mao Zedong era. Eighty percent of the "new collegians" expressed satisfaction with today's living standards, but they also understand the above-mentioned adverse phenomena. Although they did not experience the Mao Zedong era first hand, they too yearn for that kind of rich, uplifted spirit. In the survey and during the informal discussions, they expressed their own dilemma and thoughts. In fact, they are the same dilemma and thoughts of all contemporary Chinese men and women. Of course we cannot return to the poverty, backwardness, and closed society of the past, but is there no compromise between the two extremes of economic development and deteriorating social standards? How do we uphold the mainstream of reform and open up while effectively eliminating its undesirable by-products?

Perhaps this is where we must "continue to work hard" in our leg of the race.

When we first put the concepts of "Mao Zedong" and the "new collegians" together, we felt a sense of professional excitement. Yet at this point, the pen in our hands has become heavy. Our thoughts have transcended "Mao Zedong" and the "new collegians" to travel back to the last century and the century before and to race ahead into the next century and the century after that.

Isn't this how the Chinese nationality goes from history to the future?

*DAXUESHENG would like to thank the CYL Hunan Provincial Party Committee School Department and the CYL party committees and student unions of the following colleges for their support in this survey:*

Xiangtan University, Hunan Normal University, Zhongnan Industrial University, Hunan University, Beijing University, Qinhua University, Beijing Normal University, Beijing Post and Telecommunications Institute, Beijing Agricultural College, Chinese People's University of Public Security, People's University of China, Beijing College of Forestry, Central Institute of Finance and Banking, Beijing Foreign Language Institute, and Central Institute of Nationalities.

#### 'Gist' of Deng's Southern Tour Speeches

OW0902060494 Beijing BEIJING REVIEW in English  
No's 6-7, 7-20 Feb 94 pp 9-20

[By Deng Xiaoping: "Gist of Speeches Made in Wuchang, Shenzhen, Zhuhai and Shanghai—from 18 January to 21 February 1992." Numerals in parenthesis are explained in notes at end of text]

#### I

[Text]

I was here in Guangdong in 1984. At that time, rural reform had been under way for several years, while urban reform and the construction of the special economic zones (1) were just beginning. Eight years have elapsed. This time, during my trip here, I have found that the rapid growth in Shenzhen and Zhuhai special economic zones and some other areas is beyond my expectations. After what I've seen, my confidence has multiplied.

Revolution emancipates productive forces, so does reform. The overthrow of the reactionary rule of imperialism, feudalism and bureaucrat-capitalism has helped release the productive forces of the Chinese people. This is revolution, and thus, revolution brings about the emancipation of productive forces. After the establishment of the basic socialist system, it is still necessary to fundamentally change the economic structure that has hampered the development of productive forces and to establish a vigorous and dynamic socialist economic structure to promote the development of productive forces. This is reform, and thus reform also brings about

the emancipation of productive forces. In the past, we only stressed development of productive forces under socialism, without any mention of the need for their emancipation through reform. Such formulations are incomplete. Both the emancipation and the development of productive forces should be addressed.

In upholding the line, principles and policies since the Third Plenary Session of the 11th Central Committee of the Communist Party of China (in 1978—Tr. [translator]), it is essential to adhere to the principle of "one central task and two basic points." (One central task is economic construction, two basic points are adherence to the four cardinal principles of socialism, the Communist Party leadership, the people's democratic dictatorship, and Marxism-Leninism and Mao Zedong Thought; and persisting in reform and opening policies—Tr.) Without adherence to socialism, implementation of the reform and opening policy, development of the economy, and improvements in the livelihood of the people, we would find ourselves in a blind alley. The basic line should be adhered to for 100 years, and there must be no vacillation. Only by keeping to this line can we win the trust and support of the people. Anyone who attempts to change the line, principles and policies adopted since the Third Plenary Session of the 11th CPC Central Committee will not be countenanced by the man in the street and will be toppled. I have said this several times. Without the achievements of the reform and opening policy, we could not have weathered the June 4th Incident (2). And if we had failed, chaos would have prevailed and a civil war would have broken out. The "cultural revolution" was a civil war. Why was our country able to maintain stability after the June 4th Incident? It was because we had carried out the reform and opening policy, which has boosted economic growth and improved the people's living standards. Therefore, the army and the state power should safeguard this line and system and these policies.

In the short span of the past 10-plus years, the rapid development of our country has delighted the people and focused world attention. This fact suffices to prove the correctness of the line, principles and policies adopted since the Third Plenary Session of the 11th CPC Central Committee. Nobody can change this even if he wants to. After all that's been said, one sentence sums it up: stick to this line and these principles and policies. Since the reform and opening policy was carried out, we have formulated quite a few statutes, which are all-inclusive. Clear-cut guidelines and policies have been worked out and expressed in accurate language concerning the economy, politics, science and technology, education, culture and military and foreign affairs. The recent Eighth Plenary Session of the 13th CPC Central Committee (3) was a successful meeting. It affirmed that the rural household contract responsibility system with remuneration linked to output should remain unchanged. Any change in that system might cause unease among the people, who would assert that the Party Central Committee had altered its policy. In the



initial period of the rural reform, there emerged in Anhui Province the issue of the so-called "Idiot's Melon Seeds." (4) At that time, many people felt uncomfortable with this man who made a profit of 1 million yuan. They called for a struggle against him. I said that he should not be touched, because such a move might cause people to claim that the policy had changed, and the loss would far outweigh the gain. There are many more issues of this kind, and if not properly handled, they could easily shake our policies and affect the overall situation of reform. The basic policies for urban and rural reform must be kept stable for a long time to come.

Of course, as the reform is implemented, these policies should be improved or amended wherever necessary. But we should remain unwavering in our general direction. It is alright even if there are no new ideas. The main thing is that we don't change these policies and don't let people feel our policies have altered. Then, there will be great hopes for China.

## II.

We should be bolder than before in conducting reform and opening, and have the courage to experiment. We must not be like women with bound feet. Once we have a clear objective in our minds, we should dare to struggle and achieve breakthrough. The important experience of Shenzhen is daring to pioneer. Without a daring and adventurous spirit and without energy and vigor, it is impossible to break a good, new path and start new undertakings. Who dares to claim that he is 100 percent sure of success right from the outset and without taking any risk? There is no such thing as infallibility. I have never had such notions as thinking I'm 100 percent correct. Every year, the leadership should sum up experience, they should persist in what is correct and take immediate steps to amend what is wrong, and as new problems emerge, they should lose no time in tackling them. It will probably take another 30 years to form a more mature and better established system in all fields of endeavor. The principles and policies under such a system will be better shaped. We have increasingly enriched our expertise in building socialism with Chinese characteristics. Judging from the provincial press, much know-how with local features has been accumulated. This is good. Creativity is precisely what we want.

Those who are unable to move ahead with reform and opening, and who lack the courage to break new ground, are, to put it bluntly, afraid that they would be introducing too many capitalist factors, and therefore taking the capitalist road. The crux of the matter is whether this road is "capitalist" or "socialist." The criterion in making such a distinction should primarily be whether it promotes the growth of productive forces in a socialist society, whether it enhances the overall national strength of the socialist state and the people's living standards. As to the concept of building special economic zones, some people disagreed with the idea right from the start, fearing that it would mean practicing capitalism. The achievements in the construction of Shenzhen gave a

definite answer to these doubters: special economic zones practice "socialism," not "capitalism." In the case of Shenzhen, the public ownership sector constitutes the mainstay, with foreign investment accounting for only a one-fourth share. Even in the sector of foreign capital, we can benefit from taxation and labor services. We should have more of these three kinds of ventures. (5) There is no reason to be afraid of them. We dread nothing so long as we keep our heads sober. We have our advantages; we have the large and medium-sized state-run enterprises and the rural enterprises. More importantly, state power is in our hands. Some people argue that capitalism will grow as more foreign capital flows in, that capitalist factors will spread as foreign-funded enterprises increase, and that means the development of capitalism. These people lack basic common sense. In the current stage, foreign-funded enterprises in China are allowed to make money in accordance with existing regulations and policies. But the state levies taxes, workers get wages, and we can learn technology and management. In addition, we can secure information and expand our markets. Therefore, subject to the constraints of China's overall political and economic conditions, foreign-funded enterprises are useful supplements to the socialist economy and in the final analysis, they are conducive to socialism.

Whether there should be more planning or more market factors is not the essential difference between socialism and capitalism. The planned economy is not equivalent to socialism because there is planning under capitalism too, and the market economy is not equivalent to capitalism because there is a market under socialism too. Both planning and markets are economic means. The basic nature of socialism is to emancipate and develop the productive forces, eliminate exploitation, rule out polarization, and ultimately achieve common prosperity. This principle must be made clear to the people. Are securities and the stock market good or bad? Is there any danger with them? Are such things unique to capitalism? Can socialism make use of them? We allow a wait-and-see attitude but experiments should be conducted resolutely. If our judgment proves correct and feasible after one or two years of practice, the stock market may be extended. Otherwise, we may simply close it. We may close it quickly or slowly or leave a loose end. Why be afraid? So long as we stick to this attitude, it will be alright and we will not commit any major mistakes. In brief, if socialism wants to win the edge over capitalism, it must be bold to absorb and learn all civilized achievements created by human society and all advanced forms of operation and management which reflect the laws governing modern socialized production practiced in various countries around the world today, including developed capitalist nations.

To take the road of socialism is to realize common prosperity step by step. The concept of common prosperity was put forward in this way: where conditions permit, some areas may develop faster than others. Regions which enjoy faster advance can help promote the progress of the less developed regions, finally



achieving common affluence. If the rich keep getting richer and the poor poorer, polarization will emerge. The socialist system should and can avoid polarization. One solution is to let regions first becoming prosperous support poverty stricken areas by paying more taxes and profits. Of course, this should not be done too soon. At present, we should not weaken the dynamics of developed areas, nor encourage the practice of "eating from one big pot." When and on what basis we raise and settle this issue requires deliberation. It can be envisaged that by the end of this century, when China reaches a moderately prosperous level, we should raise and settle this issue. By that time, while advanced areas should continue to grow, they should also vigorously help underdeveloped areas through paying more profits and taxes and transferring technology. Most of the underdeveloped areas abound in resources and have great potential for development. In short, taking the country as a whole, we are certainly able to settle the problem regarding the wealth gap between the coastal and hinterland areas gradually and smoothly.

Opinions were divided over the reform and opening policy at the very beginning. This is normal. The difference was not only over the issue of the special economic zones, but also included the bigger issue, that of the rural reform featured by the introduction of the rural household contract responsibility system with remuneration linked to output and the abolition of the people's commune system. (6) Initially, in the country as a whole, only one-third of the provinces engaged in reform. By the second year, more than two-thirds of them had followed suit and almost all the remainder joined in the third year. At first, people were not enthusiastic about rural reform and many took a wait-and-see attitude. Our policy permits this stance, which is much better than coercion. In carrying out the line, principles and policies adopted since the Third Plenary Session of the 11th CPC Central Committee, we did not resort to compulsion and mass movement. People were allowed to follow the line on a voluntary basis, doing as much as they wished. In this way, others gradually followed suit. Absence of raised contention is one of my inventions, which is aimed at buying time for an endeavor. Once disputes occur, they will complicate matters and waste much time. As a result, nothing will be done. Without controversy, we can make bold experiments and forge ahead without hesitation. The rural reform has followed this pattern and it should also be the case with urban reform.

At present, Rightist tendencies are affecting us, as are "Leftist" ones. But it is the "Leftist" tendencies that are deep-seated. Some theorists and politicians try to scare the public with political labels. That is not Rightist, but "Leftist." "Leftism" carries a revolutionary color, giving the impression that the more "Left," the more revolutionary. "Leftist" tendencies led to dire consequences in the history of the Party. Some fine things were destroyed overnight. Rightism may ruin socialism, so can "Leftism." China should maintain vigilance against the Right but should primarily guard against the "Left." The Right

exists as displayed in the turmoil. The "Left" also lives. To regard reform and opening as introducing and developing capitalism and to see the danger of peaceful evolution coming mainly from areas of the economy are "Leftist" tendencies. We must keep a clear head, then we will not commit gross errors. And once problems emerge, they can be put right and corrected easily.

### III.

In grasping opportunities to promote our development, it is essential to boost the economy. At present, some neighboring countries and regions have registered faster economic growth than us. If we fail to progress or advance too slowly, a problem will arise when our people make comparisons with surrounding states and regions. Therefore, those blessed with conditions advantageous to development should not be obstructed. In areas where conditions permit, local development should proceed as fast as possible. Nothing is to be dreaded so long as we stress efficiency and quality, and develop the export-oriented economy. Low speed equals stagnation and even retreat. Opportunity must be grasped. The present offers excellent chance. I worry that we may lose it. If we fail to seize the opportunity, it will slip from our hand as time flies.

In developing China's economy, we should strive to reach a new rung every few years. Of course, this should not be interpreted as encouraging an unrealistic high speed. We should be down to earth and stress efficiency to realize steady and coordinated progress. Guangdong, for example, should vault several steps and strive to catch up with the "four small dragons" (7) of Asia in 20 years. In relatively developed areas such as Jiangsu, growth should be faster than the national average. Take Shanghai for another example. It has every necessary condition for faster progress. It enjoys obvious advantages in personnel, technology and management and has far-flung influences. In retrospect, one of my major errors was failure to include Shanghai when we started the four special economic zones. Otherwise, the situation in the reform and opening in the Chang Jiang River Delta, the entire Chang Jiang River valley and even the whole country would be quite different.

Viewed from the experience of recent years, economic development can reach a new stage every few years. We actually started reform in 1980. In 1981, 1982 and 1983, reform was primarily in rural areas. In 1984, the focus turned to urban areas. The years from 1984 to 1988 witnessed comparatively rapid economic growth. During those five years, rural reform brought about many changes, which were characterized by substantial increase in crop production and farmers' income and the rise of rural enterprises as a new force. Purchasing power of farmers increased and numerous new houses were built. Along with some luxurious consumer goods, the "four major articles"—bicycle, sewing machine, radio and watch—entered ordinary farming households. The increase of farm and side-line products, the expansion of

rural markets and the transfer of surplus rural labor vigorously stimulated industrial development.

In those five years, the gross industrial output value amounted to over 6,000 billion yuan, with an average annual growth rate of 21.7 percent. Industrial products increased by a big margin in the areas of food, garments, housing, transport and commodities of daily use, including color TV sets, refrigerators and washing machines. Capital goods such as rolled steel and cement experienced substantial growth as well. In this way, agriculture and industry, and rural and urban areas interacted and promoted each other. This gives us a vivid, convincing picture of the development process. It can be said that during this period, China's wealth swelled considerably and the national economy mounted a new stage. From 1989, we began the drive to improve the economic environment and rectify the economic order, which I endorsed since it was indeed necessary. The overheated economy resulted in a number of problems. For instance, the issue of excess bank notes led to a major price fluctuation. Duplicate construction was prevalent and caused waste.

However, what would be a comprehensive view of the five years of accelerated development? Those five years could be called a leap forward, but unlike the earlier "Great Leap Forward," (8) it did not hurt the organic whole and the mechanisms for economic development. In my opinion, that period made no small contributions. The economic readjustment effort obtained some achievements. But in judging these years, can we consider only the economic readjustment drive as contribution to stability, or should the half decade of accelerated growth also be counted as a contribution? At least in one respect? Without the leap forward in those years when the overall economy went up to a new level, the retrenchment drive in the following three years could not have proceeded so smoothly. It seems that we should hold on to opportunities in a certain period to accelerate our development for several years. As problems crop up in the process, we will solve them immediately and continue to forge ahead. Fundamentally speaking, when we gain in economic strength, we will gain the initiative in handling the various contradictions and problems. For a major developing nation like China, it is impossible to attain a slightly faster economic growth always at such a calm and smooth pace. Attention must be paid to steady and coordinated development, but steadiness and coordination are only relative, not absolute. Development is the cardinal principle. The issue should be made clear. If we fail to make a proper analysis and thus incur misunderstanding, we will become overcautious and dare not emancipate our minds and act boldly. Consequently, we will lose opportunities. Like a boat sailing against the current, we must forge ahead or be swept downstream.

Foreign experience has shown that some countries have experienced rapid development periods or undergone a number of high growth stages, as demonstrated in Japan, South Korea and parts of Southeast Asia. Now, we have

all the necessary domestic conditions and enjoy favorable international environments. Furthermore, we can display the superiority of the socialist system whereby we can pool efforts to undertake major work, thus it is possible as well as necessary, in the prolonged process of China's modernization drive, for us to bring about several fast-growth periods with good economic returns. We must foster such ideals and ambitions.

Fast development of the economy must depend on science, technology and education. I've said that science and technology are the prime productive force. Over the past one or two decades, they have progressed most rapidly in the world! One breakthrough in the high-tech field will promote the growth of several industries. Could we have developed so rapidly in recent years without science and technology? We must advocate science for it is where our hope lies. Over the past decade, China has recorded substantial progress in science and technology. I hope greater progress can be obtained in the 1990s. Every trade should set a definite strategical target that must be attained. China should have its place in the world in the high tech areas as well. I am no professional, but I should thank the scientists and technological experts for their contributions to China and the honors they have won for our country. We should keep in mind the days when scientists of the older generation, such as Qian Xuesen (9), Li Siguang (10) and Qian Sanqiang (11), successfully developed the atomic and hydrogen bombs, the satellite and many other high technologies under extremely difficult conditions. We should say scientists are luckier now as they enjoy better conditions than their predecessors and so we may require more of them. I have said that intellectuals are part of the working class. Veteran and middle-aged scientists are important and so are their young counterparts. We hope all those studying abroad will come back. All overseas students may return and enjoy proper arrangements, regardless of their previous political attitude. This policy toward them must remain unchanged. They should be told that it's better to return home if they want to make their contributions. I hope that concerted efforts will be made to accelerate progress in China's scientific, technological and educational undertakings. We will develop science and technology, and the higher and newer the technologies the better. And we will be all the more delighted, as will the people and the nation. We love our country, we should make it more developed and prosperous.

#### IV.

We should persist in tackling two matters: On the one hand reform and opening, and on the other, a crack down on all sorts of criminal activities. We must be steadfast with regard to both. We must not be soft in striking at all felonious acts and wiping out various evils. Guangdong is trying to catch up with Asia's "four small dragons" in 20 years, a goal not only in terms of economic growth, but also of improved public order and general social environment. We should surpass them in both material and cultural construction. Only this can be

regarded as socialism with Chinese characteristics. Singapore boasts good public order under a strict administration. We should learn from their experience and surpass them in this regard. Since China opened its door to the outside world, decadent things have come in along with the others and vices such as drug-taking, prostitution and economic crimes have emerged in some areas. Special attention must be paid to these problems and resolute measures be taken to ban and crack down on vice, never allowing it to spread unchecked. After the founding of New China, it took only three years to wipe out these maladies. Who in the world can eliminate opium-smoking and drug-taking? Neither the Kuomintang nor capitalism could have succeeded in doing this. But facts have proved the Communist Party capable of exterminating these depravities. During the entire process of reform and opening, we must persistently oppose corruption. To cadres and Party members, the building of a clean government is a matter of great importance. In addition, we must depend on the legal system, which provides a securer guarantee. In short, we can ably build up a socialist civilization with advanced culture and ideology so long as we develop our productive forces, maintain a certain level of economic growth rate and stress the two tasks of reform and crack down on criminal activities.

In the whole process of reform and opening, we must persistently adhere to the four cardinal principles. At the Sixth Plenary Session of the 12th CPC Central Committee (12), I pointed out that the struggle against bourgeois liberalization must be conducted for 20 years. Now it seems it will take longer. The rampant spread of bourgeois liberalization may have serious consequences. It has taken the special economic zones more than 10 years to reach the present stage. They can collapse overnight. Collapse is easy but construction is difficult. If we neglect the symptoms, troubles will occur.

Defending the socialist system with the proletarian dictatorship is a basic viewpoint of Marxism. Marx said the concept of class struggle was not his invention. His real creation was the theory of the proletarian dictatorship. History has proved that the rising and fledgling class that has just taken over power is, generally speaking, weaker than its hostile class. It must therefore resort to dictatorship in consolidating its political power. Democracy is applied for the people and dictatorship over the enemy. This is the people's democratic dictatorship. It is just and not in the least wrong to consolidate the people's power by employing the force of the people's democratic dictatorship. We have practiced socialism for only several decades and are still in the primary stage. It will take a considerably long historical period to consolidate and develop the socialist system, and that requires unremitting efforts and struggle by several generations or 10 or even dozens of generations to come. We must never treat the matter lightly.

## V.

A correct political line must be guaranteed by a correct organizational line. In a sense, personnel form the key to the issue of whether we can do well in China's domestic matters, whether socialism, reform and opening can be adhered to, and whether the economy can grow faster and the country enjoy longterm peace and stability.

Imperialism has pursued peaceful evolution in China, placing its hope on the generations to come after us. Comrade Jiang Zemin and his peers can be regarded as the third generation, and there will be a fourth and fifth. As we of the older generation are still alive and carry weight, hostile forces realize that no change is possible. But after we are dead and gone, who will arise as a bulwark? Therefore, we must educate the army, the organs of dictatorship, the Communist Party members and the people including the youth. If anything goes wrong in China, it will have its root within the Party. We must keep a clear head. We must pay attention to the fostering of successors, selecting and promoting those with both ability and political integrity to the leadership in line with the requirements of being "revolutionary, young in age, well educated and professionally competent." Continuation of the Party's basic line for 100 years and long-term peace and stability in the country depend on this condition. It is relevant to the overall situation. This is a current issue that has not been settled smoothly. I hope it will be resolved satisfactorily. The issue drew my attention when I resumed work after the "Cultural Revolution." We found that we veterans alone could not settle the problem of realizing enduring stability, so we recommended others, genuinely looking to the third generation. But the problem remained unsolved. Two persons have failed, and not on economic issues, but on the issue of opposing bourgeois liberalization. We could not make concessions in this regard. In late May 1989, I said that we should be bold to choose for the new leadership those who are widely acknowledged to be steadfast followers of the reform and opening policy, with records of good performance. This would convince the populace that we are sincerely and wholeheartedly engaged in reform and opening. The masses judge from practical results. When they see that socialism, and the reform and opening policies are still the best, our cause will flourish forever. Further efforts should be made to choose and promote young people to leadership. The present central leadership is a little advanced in years. Those slightly over 60 are counted as young. They may work another 10 years. But in 20 years' time when they are over 80, they may be able to chat and talk like what I'm doing today, but they won't have enough energy to concentrate on work. The current central leadership has done a good job, of course, many problems remain, but problems are never few at any time. [sentence as published] It is essential for elders like us to stand aside and give young comrades a free hand, waiting for them to mature. We elders should consciously offer our seats to them and give them some help, but never putting obstacles in their way. Older people should, out of goodwill, help them when matters are



bandied improperly. We must pay attention to the fostering of successors. I insisted on retiring in order to avoid making possible old-age mistakes. The elderly have both strong and weak points. They tend to be stubborn, and therefore, they should be aware of their limitations. As they age, they should make greater efforts to avoid errors in the final stage of their life and be more modest. Now we must continue choosing younger comrades and help them mature. Blind faith is not in order. I was already in a high position in my twenties. I was no more knowledgeable than you, but I did my job. More young people must be chosen, helped and trained and allowed to bloom. When they reach maturity, we will feel relieved. At present, we still have worries. Essentially, we must deftly manage the internal affairs of the Communist Party and prevent any trouble from arising. Then we may rest assured. Whether or not the line established at the Third Plenary Session of the 11th CPC Central Committee for China's development can continue depends on you, especially on the education of future generations.

We are now facing a problem of formalism. TV news programs are full of meetings, there are too many conferences. Articles and speeches are lengthy, and they are repetitious with little fresh language. Reiteration in speech is needed, but one must be concise. Formalism is a kind of bureaucracy. We must spend more time on practical matters. That means saying less and doing more. Chairman Mao did not convene prolonged meetings, his essays were short and concise and his speeches succinct. He asked me to draft the work report to be delivered by Premier Zhou at the Fourth National People's Congress on the proviso it be no more than 5,000 Chinese characters. I fulfilled the task. Surely 5,000 Chinese characters were adequate. I suggest you do something about this problem.

In studying Marxism, we must grasp the essence and learn what is effective. Weighty tomes are for a small number of specialists, how can the masses read them? It is formalistic and impracticable to require that all people read such works. My first initiators into Marxism were *Manifesto of the Communist Party* and *The A.B.C. of Communism*. Recently, some foreign commentators have been saying that Marxism cannot be toppled. This is so not because of the existence of so many magnum opuses, but because Marxism is the irrefutable truth. Seeking truth from facts is the essence of Marxism. This is what we must advocate, not bookism. The success of the reform and opening has not relied on books, but on practice and the spirit of seeking truth from facts. The patent right for inventing the rural household contract responsibility system with remuneration linked to output belongs to the farmers. Many things in the rural reform stemmed from the grass-roots. We have turned them into general guides for the whole country after processing and upgrading. Practice serves as the sole criterion of truth. I have not read many books, but I believe in Chairman Mao's thesis of seeking truth from facts. In the past, we relied on this in fighting wars; and

we continue to rely on this in the current construction and reform. We have advocated Marxism all our lives and in fact, Marxism is not abstruse. Marxism is a simple thing, a very simple truth.

## VI.

I am convinced that the number of people espousing Marxism will increase in the world, because it is a science. It has uncovered the law governing the development of human society by using historical materialism. Feudal society replaced slave society, capitalism supplanted feudalism, and, after a protracted process, socialism will certainly supersede capitalism. This is an irreversible general trend in social development. But the road is full of twists and turns. In the several centuries that capitalism took to replace feudalism, were there not numerous restorations of monarchical rule? Thus, in a sense, temporary restorations are regular phenomena difficult to avoid. Some countries have suffered serious setbacks, and socialism has seemingly been weakened. But the people will have tempered themselves and drawn lessons from it and that will make socialism develop in a healthier direction. Therefore, there is no need to panic, to believe that Marxism is vanishing, that it has lost its value and is vanquished. Nothing of the sort!

Peace and development are the two major issues of the world, and neither one has been resolved. Socialist China should show the world through its deeds that it is opposed to hegemonism and power politics, and will never seek hegemony. China is a staunch force in safeguarding world peace.

We must push ahead along the road of building socialism with Chinese characteristics. Capitalism has been developing for several centuries. The time we have spent on building socialism is quite short, not to mention the two decades we ourselves lost! It will be an extraordinary achievement if we build our country into a moderately developed country within a century starting from the founding of New China in 1949. The period from the present to the middle of next century is a crucial one. Let us immerse ourselves in hard work, as we are shouldering heavy burdens and bear major responsibility.

## NOTES:

1. In July 1979, the Central Committee of the Communist Party of China (CPC) and the State Council agreed to experiment with establishment of special export zones in Shenzhen, Zhuhai and Shantou of Guangdong Province and Xiamen of Fujian Province. In May 1980, the CPC Central Committee and the State Council decided to rename the four as special economic zones. In August of the same year, the 15th Session of the Standing Committee of the Fifth National People's Congress approved Regulations Concerning the Special Economic Zones in Guangdong Province. This was followed by the successive establishment of these special economic zones. In 1984, Deng Xiaoping inspected the three zones at Shenzhen, Zhuhai and Xiamen. Aiming mainly at absorbing and utilizing foreign capital, the zones have

adopted special economic policies and management systems. Their economic ownership system features a pluralistic structure dominated by socialist public ownership. Their economic activities are based on market regulation guided by state macroeconomic control. Foreign investment is facilitated by preferential treatment. The zones enjoy comparatively greater rights of economic management. Prior to 1985, the four concentrated mainly on infrastructure construction in order to create a good investment environment. Starting from 1986, they strove to develop export-oriented economies based on industry and characterized by the combination of industry with foreign trade and the simultaneous promotion of agriculture, animal husbandry, fisheries and tourism. In April 1988, the First Session of the Seventh National People's Congress passed a resolution approving the designation of Hainan Island as the Hainan Special Economic Zone which implemented more flexible and open economic policies. The existing five special economic zones function as opening windows for China's socialist modernization drive. They also constitute trials of the nation's economic structural reforms.

2. When Hu Yaobang passed away on 15 April 1989, the public gave vent to their grief in various forms. During the mourning activities, a handful of people, with ulterior motives, concocted rumors to confuse and poison people's minds with demagoguery. They used big and small character posters to slander and rail at the Party and state leaders, instigating opposition to Communist leadership and socialism. On April 26, RENMIN RIBAO (PEOPLE'S DAILY) published an editorial entitled "A Clear-Cut Stand Must Be Taken Against Turmoil." The connivance and support by Zhao Ziyang, then general secretary of the CPC Central Committee, encouraged the turmoil. On May 13, the Beijing Autonomous Students Union, an illegal student organization, instigated the inception of a hunger strike by some individuals and occupied Tiananmen Square for a long period. To ensure social stability and restore normal order, the State Council decided to enforce martial law in part of Beijing from May 20. Taking advantage of the great restraint exercised by the government and the army, the organizers and plotters of the turbulence continued to occupy Tiananmen Square and organized various illegal activities. The unrest eventually developed into a counter-revolutionary riot. On June 4, the Party and government, relying on the people, adopted resolute measures and suppressed the counterrevolutionary riot.

3. The Eighth Plenary Session of the 13th CPC Central Committee was held from November 25-29, 1991 in Beijing. The plenary session examined and passed the Decision of the CPC Central Committee on Further Strengthening Work in Agriculture and in Rural Areas. The session fully confirmed the Party's basic policies for rural areas and the great achievements of the rural reforms since the Third Plenary Session of the 11th CPC Central Committee. It emphasized that the household contract responsibility system should continue, along

with improvements in the dual-level system which combines unified and independent management and unswerving deepening of rural reforms. The plenary session also examined and approved the Resolution on the Convening of the 14th CPC National Congress.

4. This refers to a self-employed individual in Wuhu City of Anhui Province who became rich through employing workers to process and sell melon seeds known as "idiot melon seeds."

5. The three kinds of ventures include Sino-foreign joint ventures, cooperative and solely foreign-owned enterprises.

6. After the CPC Central Committee convened a working conference in Chengdu in March 1958, an upsurge occurred to merge small agricultural cooperatives into big ones. It received affirmation and support from Mao Zedong. In August, they were named people's communes. In the same month, the CPC Central Committee held an enlarged meeting of the Political Bureau at Beidaihe which adopted the Resolution Setting Up People's Communes in the Rural Areas. Thus the people's communes were quickly set up throughout the country without undergoing any experimentation. Large in size and having a higher degree of public ownership than cooperatives, the communes integrated government administration and economic management and brought workers, peasants, merchants, students and soldiers together. Usually a township formed a commune but some counties also became communes. With their highly centralized management, the communes put the poor and the rich on an equal footing and introduced equitable distribution of wealth. Subsidiary production teams and even commune members were forced to hand over their property without compensation, stirring up a "communist wind" that spread unchecked across the country. After the winter of 1958, and in the spring of 1961 in particular, the CPC Central Committee and Mao Zedong made a series of policy demarcations in regard to people's communes and corrected some errors. However, the excessive centralization and egalitarianism existing in the people's communes lingered on posing a dilemma that restrained peasant initiative and rural productivity. Following the Third Plenary Session of the 11th CPC Central Committee, the system of the people's communes gradually changed under rural economic structural reforms. In October 1983, the CPC Central Committee and the State Council issued the Circular on Separating the Functions of Government from Commune Management and Establishing Township People's Government in line with stipulations in the Constitution of the People's Republic of China. The work was basically completed throughout the country by the end of 1984, indicating the demise of the people's communes in rural areas.

7. Here refers to the newly industrializing countries and regions—Singapore, Hong Kong, Taiwan and the

Republic of Korea. Since the 1960s, they have been called the "four small dragons" of Asia because of the speedy economic growth.

8. In May 1958, the Second Session of the Eighth National Congress of the CPC formally adopted the general line of "going all out, aiming high and achieving greater, faster, better and more economical results in socialist construction." In the meantime, the Party rashly launched the "Great Leap Forward" movement. At first, unduly ambitious targets were set for agricultural production and newspapers advocated "high-yield satellites." In this atmosphere of boasting and hyperbole, the enlarged meeting of the Political Bureau of the CPC Central Committee convened in Beidaihe in August announced that steel output in 1958 would reach 10.7 million tons, double that of the previous year. After the gathering, an upsurge occurred in the nationwide movement to make steel. Similar movements also surged in industry, transportation, post and telecommunications, education, culture and public health undertakings. All were spurred on by the slogan "taking steel as the key link" and pushed the "Great Leap Forward" movement to a climax. "Left" errors marked by overly high targets, issuing of arbitrary direction, bragging and exaggeration spread unchecked, disrupting normal economic construction orders, wasting large amount of manpower and resources and causing serious disproportion in the national economy.

9. Qian Xuesen was born in Hangzhou, Zhejiang Province, in 1911. He went to study in the United States in 1935 and returned to China in 1955. He joined the Communist Party of China in 1958 and subsequently held such posts as director of the Institute of Mechanics of the Chinese Academy of Sciences, vice-minister of the No. 7 Ministry of Machine-Building Industry, vice-minister of the State Commission of Science, Technology and Industry for National Defence, and chairman of the China Association for Science and Technology. He was also an alternate member of the ninth to 12th CPC

Central Committee. Qian directly participated in and organized China's study and experimentation on carrier rockets, missiles and satellites, making outstanding contributions to China's spaceflight endeavors.

10. Li Siguang (1889-1971) was born in Huanggang, Hubei Province. He studied in Japan and Britain and was a university professor and member of the Central Research Academy. He visited Europe in 1948, and returned to China in the following year. Li joined the Communist Party of China in 1958 and held such posts as director of the Institute of Palaeontology of the Chinese Academy of Sciences, vice-president of the Chinese Academy of Sciences, minister of geology, and chairman of the China Association for Science and Technology. He was also a member of the Ninth CPC Central Committee. All his life, Li studied and taught palaeontology, glaciology, seismology and geomechanics. As a pioneer of geomechanics, Li made outstanding contributions to China's petroleum prospecting.

11. Qian Sanqiang (1913-92), whose ancestral home was in Wuxing (present-day Huzhou) of Zhejiang Province, was born in Shaoxing. He went to study in France in 1937 and returned to China in 1948. Qian joined the Communist Party of China in 1954 and held such posts as director of the Institute of Modern Physics of the Chinese Academy of Sciences, vice-minister of the No. 2 Ministry of Machine-Building Industry, vice-president of the Chinese Academy of Sciences and honorary chairman of the China Association for Science and Technology. He made outstanding contributions to the founding of China's atomic energy sciences and the development of atomic and hydrogen bombs.

12. The Sixth Plenary Session of the 12th Central Committee of the CPC was held in Beijing on 28 September 1981. The session adopted the Resolution of the Central Committee of the Chinese Communist Party on the Guiding Principles for Building a Socialist Society With an Advanced Culture and Ideology. In discussing the draft of this resolution, Deng Xiaoping delivered an important speech on opposing bourgeois liberalization.



## PROVINCIAL

### Shanghai To Implement 7 Financial Reforms

94CE0258A Shanghai WEN HUI BAO in Chinese 17  
Dec 93 p 1

[Article by WEN HUI BAO reporter Tai Hengji (3141 1854 7535): "Shanghai To Implement Seven Financial Reforms in 1994"—First paragraph is WEN HUI BAO introduction]

[Text] We will introduce the market mechanism and energetically cultivate and develop the financial market; truly manage the state-owned commercial banks as ones which operate according to the mechanism of business management of modern commercial banks; actively stabilize and develop the system of cooperative banks; and open wider to the outside world in financial affairs.

Mao Yingliang, director of the Shanghai Municipal Branch of the People's Bank of China, said yesterday that Shanghai's financial circles must quicken its tempo in deepening the reform of the financial system. He expressed his views on Shanghai's financial reform for the next year.

Mao Yingliang was interviewed yesterday right after he attended the class for leading cadres in Shanghai to study Volume 3 of *Selected Works of Deng Xiaoping*. Through the study of the Works of Deng Xiaoping, the cadres in Shanghai's financial circles have deepened their understanding of the remarks made by Comrade Deng Xiaoping who said: "When a single move of chess is lively, the whole game of chess becomes lively. This applies to the financial affairs" and "Shanghai has gained international standing in financial affairs. First of all, we must rely on Shanghai." Meanwhile, remarkable achievements have been attained in implementing the measures laid down by the central authorities on exercising macroeconomic control. All this has provided Shanghai with conditions to deepen Shanghai's financial reform in ideology and in practice.

First of all, Mao Yingliang analyzed the current financial situation in Shanghai. He pointed out that after exercising the macroeconomic control, Shanghai's financial order in Shanghai has been stabilized and its business operation becomes normal. The amount of bank deposits and loans is increasing on a large scale. The financial market remains active and opens wider to the outside world. All this supports the sustained, rapid and healthy development of Shanghai's economy. By the end of November, the total amount of deposits of all types in Shanghai was increased by 33.8 billion yuan over that in the same period at the end of the last year, marking a growth of 9.08 billion yuan as compared with that in the corresponding period in the previous year. There is a regular increase of saving deposits. As compared with the end of the last year, the amount of savings deposits rose by 13.5 billion yuan, more than 90 percent of which were fixed-term deposits. The amount of deposits from government enterprises also sharply rose. With the

amount of deposits increasing, there is a steady rate of growth in loans. The funds are being used on all major construction projects in support of the economic development in Shanghai. Various specialized banks turn over 9.8 percent of their deposits to the central bank as reserve requirements, 4 percent more than that before the macro-economic control and higher than what they are required to do. The financial market is unprecedentedly active. The annual volume of business on the security market is expected to reach 500 billion yuan; the total amount of foreign exchange that change hands on the swap market may exceed U.S.\$4 billion; and the total amount of inter-bank loans will reach 210 billion yuan. The balance of inter-bank exchange remains normal, the rate on the swap market is basically stable, and the situation in the returns of money is fine. Mao Yingliang believed that the measures adopted by the central authorities in exercising the macroeconomic control has brought stability and prosperity to Shanghai's financial circles and created a good environment for further deepening the financial reform for the next year.

On the financial reform for the next year, Mao Yingliang put forward the following seven tasks on the basis of the principle of emancipating our thinking and seeking truth from facts:

1. We must introduce the market mechanism to energetically cultivate and develop the financial market. Foreign exchange, money, securities and gold markets should be further expanded and developed. Efforts must be made in establishing the center for foreign exchange of China. This center located at No 15 Bund in Shanghai is now under construction. It is expected to go into operation in early 1994. This is a large, nation-wide market. It is necessary to make use of this market to form a national unified foreign exchange market and a nationwide system for a unified foreign exchange rate. Meanwhile, it is essential to unify foreign exchange rates in coordination with the reform in foreign exchange system and to lay a foundation for the internationalization of our currencies. Efforts must be made to improve the money markets including the short-term national bonds market, the inter-bank loan market and the discount market; and exercise macro-economic control with open market operations. It is essential to further improve the securities market and enterprise management system, and optimize the allocation of resources. Currently, the Shanghai securities market has basically become the national business center in this connection. During the next year, it will further expand business and promote standardization. Efforts should be made to build a gold market according to international standards. During the last year, more than 10 tons of gold jewelry were sold in Shanghai. The sale of such gold jewelry is expected to exceed 20 tons this year. We must study how to increase transactions in gold bullions and gold certificates.

2. We must truly turn state commercial banks into ones which operate like modern commercial banks. First, efforts must be made to help specialized banks separate the existing policy-lending business from commercial

lending business and engage in the management of the proportions of assets and liabilities and in management of risks. They must be helped to develop a mechanism of assuming responsibilities for their own business management, their own risks, profits and losses, and in restraining and developing themselves. It is imperative to help the existing commercial banks develop a mechanism to operate like genuine commercial banks. They must be allowed to compete, and their businesses be permitted to overlap with one another.

3. We must actively and steadily develop the system of cooperative banks and establish rural and urban cooperative banks. Urban cooperative banks must be established on the basis of the 99 existing urban credit cooperatives. They should serve the small- and medium-sized enterprises and render regional economic services. Urban cooperative banks should operate at the grassroots and the city level. All of them enjoy their status as independent legal persons. Rural cooperative banks should be established on the basis of existing rural credit cooperatives. State commercial banks may hold shares of rural cooperative banks, but may not change the latter's characteristics in cooperating with each other on a collective basis.

4. It is necessary to open wider to the outside world in financial affairs, and welcome more foreign-funded banks to open up their branches in Shanghai. We hope that the number of branches of foreign banks will reach 50 in 1995. Foreign-funded banks are welcome to move their regional head offices or their head offices in China to Shanghai. We must strive to carry out experiments in allowing a limited number of foreign-funded financial institutions to do business in renminbi.

5. It is imperative to popularize the use of computers in financial operations. During the next year, we must set up a credit card network and use computers for local check clearance.

6. We must blaze new trails in improving ways in handling financial affairs including business in offshore financing, mortgage loans, and others. It is necessary to develop real estate financing business in close connection with housing reform.

7. We must strengthen the macroeconomic control in financial affairs. The central bank must strengthen its financial supervision and auditing and further standardize the procedure in handling financial affairs. Particular efforts must be made to change from direct control to effective indirect control by improving the market mechanism.

### **Shanghai Trading Markets 'Taking Shape'**

94CE0258B Shanghai WEN HUI BAO in Chinese  
9 Dec 93 p 1

[Article by WEN HUI BAO reporter Chen Wei (7115 1919): "Shanghai's Eight Trade Markets Advance Toward Maturity"]

[Text] A large setup of markets in Shanghai is gradually taking shape, covering the whole country and linking up the world. Within a period of a year and half, Shanghai has built a total of eight major trade markets for metal, coal, agricultural supplies, chemicals, petroleum, grain and edible oil, motor cars and building materials. During the first 11 months this year, the volume of business of the eight major markets exceeded 370 billion yuan. The past practice of the state allocating the essential factors of production has been changed. This change lays a solid foundation to establish a socialist market economic structure in Shanghai.

A major standardized market is one of the distinctive features of the new market economy. From the very beginning, the eight major markets in Shanghai put to an end the abnormal phenomenon of linking authority with economic interests. Various major markets have invariably set up a mechanism of open and fair market competition. During business transactions, everyone is treated equally. All price competitions are open, whether customers are new or old and personal relations are close or not. The metal market in Shanghai sold and bought 17.73 million tons of metal of all types between January and November this year with the total volume of business exceeding 320 billion yuan. This has objectively reflected the demands on the domestic market and the changes on the international market. The metal market has fulfilled its targets much earlier than the spot markets in various localities in the country. Therefore, the prices on the metal market in Shanghai has replaced the prices set by the state for many years and become the most authoritative prices for the selling and buying of ferrous metal in the country. The standardized major markets truly reflect the law of value and the relations between supply and demand. The eight major markets implement the system of cash deposit and that of punishment for breach of contracts. Members and units that do businesses on the markets value their credit a great deal and the rate of fulfilling contracts on various markets is considerably high. The volume of business on the metal market exceeded 320 billion yuan, and the rate of contract fulfillment reached 100 percent.

The eight major markets in Shanghai are diversified in doing their businesses. The major categories of their businesses embrace major means of production in the three major industries in support of the national economy—industry, agriculture and energy. Member units that are doing businesses on the eight major markets include "state groups," large production enterprises, enterprises in the realm of circulation and end-use units as well as newly emerging trading companies and even individual private-owned enterprises. As for the form of business, there are futures contracts like the one signed by the Shanghai Metal Exchange Market for No. 1 electrolytic copper, cash transactions and medium- and long-term contracts. Each of the eight major markets has its own special feature and attractions. Their operation is diversified, orderly and standardized.

Shanghai and the relevant ministries and commissions of the state have established the eight major trade markets in an effort to help China's economy gradually become world-oriented. Therefore, while trading products that are either have long been available on the world market, or are just beginning to appear on the world market, the various existing trade markets in Shanghai have tried hard to carry out their operations according to international practice in order to embark in international business. The metal trade market, petroleum trade market and the grain and edible oil trade market in Shanghai already have access to the REUTER IDN International high-speed network, and they are able to simultaneously receive the latest information from various large trade centers in the world. Meanwhile, they are also able to transmit the market information from Shanghai to various trade centers in the world through computer terminals and networks. Various trade markets in Shanghai have also established close connections with famous trade centers in the United States, Britain and other nations, and invited foreign experts to come to China to pass on their knowledge and train personnel. They also send people abroad to carry out investigations and studies, and draw on the experience in foreign countries on the development of the futures market. Some foreign bankers believe that these trade markets in Shanghai have started early and are rapidly maturing. They will have a far-reaching impact on the establishment and development of the mechanism of market economy.

## FINANCE, BANKING

### Budgetary Fund Loss Called 'Serious'

94CE0256B Beijing JINRONG SHIBAO in Chinese  
16 Dec 93 p 3

[Article by Li Guo'an (2621 0948 1344), Shaoyang (Hunan) Branch, the People's Bank of China: "Serious Losses of Budgetary Funds"]

[Text] A new and quite worrisome problem has arisen in China's public finance, namely the retardation in several regions of budgetary income increases, a fact which has most seriously aggravated the difficulties of public finance, so that even the normal allocation of funds for wages has become difficult in certain administrative units. In marked contrast to this situation, extrabudgetary funds have substantially increased yearly, and are showing a tendency toward large-scale inflation. In our search for reasons, we found that serious losses are being incurred in the budgetary income of public finance, and our investigations have revealed that there are the following eight channels which are allowing budgetary funds to be diverted to become extrabudgetary funds.

First channel: Diversions put in place through public finance budgets. Public finance is presently practicing a system of separate administrative responsibilities, referred to as "preparing one's own meals at separate

kitchens." When preparing their annual financial budgets, some regions will therefore try to promote local economic developments and build up financial resources by making appropriate provisions in their budgets for "special-purpose funds" to support production. As we understand, most of these funds are allocated out in the form of revolving funds by the business departments of the public finance agencies, without providing for reimbursements, from budgetary accounts to extrabudgetary accounts, and are left deposited there. In the process of transferring these funds to the extrabudgetary deposits and allocating them for payment, it happens quite frequently that the business departments within the public finance agencies at every level retain some of these funds and divert them for other purposes. This, then, is a way of turning budgetary funds into extrabudgetary funds.

Second channel: Diversion through financial credits. Financial credit is one form by which public finance agencies use capital funds by means of fiduciary bank loans. In recent years, there has been an increase in the locally retained funds, and as a consequence, financial credit activities have also expanded. Some public finance agencies are utilizing intermittently available budgetary or surplus funds, on the pretext of supporting production, and either directly loan such funds out on budgetary accounts or employ an agency pattern in extending loans. Some also invest the funds as shares in enterprises, starting up all kinds of fiduciary loan activities, and collecting "fund-occupancy" or "fund-use" fees.

Third channel: Diversion of income earned by administrative business units by not turning over such income to the state treasury. Income from administrative business units is an important source of budgetary revenue of public finance. However, in recent years, some units that earn budgetary income use various kinds of pretexts for remitting less than due, or for not remitting at all, income that should be paid into the state treasury. Particularly serious are the cases of units which themselves collect such revenue and spend it all by themselves. They thus retain the total amount of such income and turn these funds, that should have been administered within the budget, into their own small money-chests and their own small treasuries, and in this way provide the monetary resources for unhealthy tendencies.

Fourth channel: diversion by not turning over to the treasury fines and confiscated funds collected by the state's law enforcement agencies. Following more effective law enforcement, income from fines and confiscated funds, collected by the law enforcement agencies in the course of the performance of their duties of exercising state controls, have increased yearly. According to regulations, fines and confiscated funds must be paid into the state treasury in full, while expenses incurred during the investigation of the cases in question shall be allocated and paid out of the budget of public finance, thus collection and expenditures shall be two separate operations. However, in actual fact, implementation of this



rule is difficult. Quite a number of units use as an excuse the fact that circumstances had been exceptional, and that no money had been available to investigate the cases, to make out that revenue and expenditure have evened out. They will spend the money as they please, and budgetary income funds will thus be retained and misused for other purposes.

Fifth channel: diversion by dispersions and retentions carried out by agencies in charge of finance, taxation, and the imposition of levies. Investigations revealed that some agencies in charge of finance, taxation, and the imposition of levies had opened special accounts, or rather, arbitrarily opened accounts, with various banks and urban or rural credit cooperatives with the intention of retaining budgetary revenue and willfully diverting the money to other uses. These activities have assumed serious dimensions. Especially some basic-level units in charge of finance, taxation, and the imposition of levies do not administer affairs according to the provisions governing state treasury administration. They do not promptly report and hand over the full amounts of budgetary revenue, but will, without authority, divert the budgetary revenue to other purposes or privately deposit public funds with the intention of making private profits for themselves or for their group. Particularly serious are the cases where they act in complete disregard for party discipline and state law by willfully and arbitrarily misappropriating funds that belong to the state treasury.

Sixth channel: diversion by public finance agencies setting up economic entities. During the last two years, public finance agencies of various ranks have set up a large number of economic entities, and, for the purpose of providing these economic entities with the needed funds for running expenses, also as capital and operating funds, some agencies in charge of public finance have financed these economic entities with budgetary funds in such forms as allocations from budgetary accounts, or loans, or by taking up shares in these entities. A part of the budgetary funds was thereby converted into funds owned by the subordinate economic entity.

Seventh channel: diversions by finance and tax agencies refunding paid-in budget revenue and refunding taxes. Taxes and profits from enterprise units figure large in the budgetary revenue of state finance. However, some districts merely take their partial and local benefits into consideration, will disregard the state's laws and regulations concerning public finance, will concoct all kinds of pretexts, use a great variety of forms, and will, in an arbitrary excess of their powers, reduce taxes, refund taxes, and refund paid-in budget revenue. They will, in particular, arbitrarily refund or reduce budgetary revenue of the central government and revenue that belongs to both, the local as well as the central government. In the administration of budgetary revenue, there is also the problem that the agency in charge of administering the state treasury does not conscientiously carry out its official duties. In such specific accounting processes as reporting and paying the proper proportions in tax categories and tax items as pertaining to the central

government or the local governments, investigations and checks are not strict. This too is responsible for diversion of a part of the budgetary revenue, converting it from central government to local government budgetary revenue, or to extrabudgetary funds of enterprise units.

Eighth channel: diversion by enterprises cutting down on payments to the treasury and claiming higher costs. When drawing various special-purpose funds, some enterprise units will arbitrarily expand the scope of the project and raise significant proportions and criteria. For instance, when drawing funds for the depreciation of fixed assets, they will shorten the service life and claim depreciation before its proper date. They will cut down on payments to the treasury and will use the money for their own purposes, and they will increase cost expenditure. By doing so they will correspondingly reduce enterprise profits and taxes, and expand the source of extrabudgetary funds of their own enterprise units.

To bring about a radical solution of the serious problems of the above-mentioned conversion of budgetary funds to extrabudgetary funds and to stop up loopholes, it is my opinion that it is necessary to actively push on with the structural reform of the finance system with a separate taxation system, that we straighten out the distribution relations between central government and local governments, increasingly promulgate laws and regulation, as soon as possible produce a law on budgeting, enhance the work at the state treasury, fully bring into play supervisory and administrative functions of the agency in charge of the state treasury, and effectively check the administration of the state treasury and close loopholes.

#### **Economist Liu Guoguang on Financial Reform**

94CE0256A Beijing *CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS]* in Chinese No 11, 11 Nov 93  
pp 3-10

[Article by Liu Guoguang (0491 0948 0342): "Several Problems in Finance and Banking Reform"]

[Text] Concerned about conspicuous problems and incongruities in the operation of the country's economy—particularly in the finance and banking field—during the past several months, the central authorities have taken a series of actions to improve macroeconomic regulation and control, principal of which has been rectification of finance and banking. These actions show initial results in the form of a preliminary cooling of the overheated economy and the beginning of a readjustment of the overly confused finance and banking order. Nevertheless, a fundamental turn around of the disarray in the finance and banking order and laxity in finance and banking discipline requires full reform of the economic system. Specifically it requires pervasive reform of the finance and banking system.

### **I. Finance and Banking System Reform Holds an Extremely Important Position in Overall Economic System Reform**

China's economy has developed rapidly as a result of more than a decade of reform and opening up to the outside world. The economic system has also undergone profound changes, one evidence of which is the increasingly important position and the increasingly marked role of finance and banking in the overall operation of the national economy. As the country's national income distribution structure, national savings structure, and investment and financing structure change, and as the degree of commercialization, monetarization, and use of credit in the economy became greater and greater, the finance and banking sector has become the main channel for raising capital, for financing, and for distributing funds in society. It has become the main supplier of construction funds in society. Today, a substantial percentage of funds invested in fixed assets throughout society come from the finance and banking sector, and more than 90 percent of enterprises' working capital comes from the finance and banking sector. During the past several years, the absolute figure increase in bank credit each year has greatly exceeded fiscal expenditures for economic construction. The finance and banking sector has made an outstanding contribution to development of the national economy. At the same time, finance and banking has become the main means of regulating the movement of currency and capital (value). It has become the most important hub for the country's macroeconomic regulation and control. Through currency and credit policies, and the use of both direct and indirect regulation and control measures, including the scale of credit, relending, savings reserve funds, interest rates, and exchange rates, the state has regulated total social demand, has striven to keep the currency stable, and has spurred coordinated development of the national economy. One study shows that virtually all the economic fluctuations of the economy during the past several years have resulted from fiscal and financial policy regulation, and that financial policy has played a more important role than fiscal policy. One might say that after more than a decade of reform, the position of accountant for plan and cashier for government finance that the finance and banking system occupied under the traditional system has changed fundamentally. Finance and banking policy and its macroeconomic regulation and control effect have become of greater and greater decisive importance.

It is because of reform that the importance of finance and banking in the national economy has become greater and greater. Therefore, the important position of finance and banking system reform in overall economic system reform has increasingly aroused a high degree of serious attention and widespread concern. In many important ways, however, finance and banking system reform has advanced with difficulty. This difficulty has become a major impediment to progress in reform of macromanagement and reform of the economy as a whole. Progress

in finance and banking system reform directly influences and limits progress in overall economic system reform.

Truly, with the intensification of economic reform and widening of the opening up to the outside world during the past 14 years, quite a few achievements have been made in financial system reform. Today's finance and banking system has changed quite markedly from the traditional system. A finance and banking system has taken shape in which the Chinese People's Bank plays the leading role, the national banks are the main entities, and finance and banking institutions of various kinds exist together, and in which the division of labor is coordinated. A financial macroeconomic regulation and control system has been preliminarily built that applies economic, administrative, and legal means to control finance and banking. Financial markets dominated by lending markets and national bond markets have begun to form. Financial opening up to the outside world is expanding steadily. Nevertheless, since finance and banking cover a wide area, which makes for great difficulty in reform, progress in reforming the financial system is still fairly slow. Reform has yet to make real headway on some pervasive and fundamental problems. The finance and banking system is unable to meet needs for development of a socialist market economy. This shows up mostly in the following ways: The Chinese People's Bank has not yet become a true central bank. Macroeconomic regulation and control of finance and banking is feeble. China's specialized banks handle both routine commercial business and transactions made for policy reasons. Thus, they cannot become true finance and banking enterprises. The entire banking system lacks competitiveness and vitality. Financial markets lack standardization. Cutting up of markets and mutual market blockading are serious problems. Effective supervision and control are lacking. Financial regulation and control methods, including the regulation and control of interest rates, retain a strong administrative fiat coloration. These problems impair implementation of national macroeconomic policies, and they hamper the further intensification of economic reform and healthy development of the national economy.

Therefore, acceleration of financial system reform, and increasing the intensity of financial system reform in order to spur broad and in-depth economic system reform have become problems currently in need of urgent solution. But in what direction should finance and banking system reform be intensified? To meet the needs of a socialist market economy, as well as to solve deep-seated problems in the country's finance and banking realm, the basic goals of China's finance and banking system reform should be as follows: 1) Amplification of the basic functions of the Chinese People's Bank to build a strong central bank regulation and control system that independently executes monetary policy; 2) separation of financing for policy reasons from financing of a commercial nature to build a finance and banking system in which state-owned commercial banks are the main entity, and various kinds of finance and

banking institutions exist at the same time; 3) standardization of financial market operation to build a financial market system that is uniformly open, has orderly competition, and is strictly controlled; and 4) straightening out of different interest rates to build a capital pricing system founded on the central bank interest rate.

## **II. Amplification of Chinese People's Bank's Basic Functions To Build a Strong Central Bank Regulation and Control System That Independently Executes Monetary Policy**

As the nation's central bank, the Chinese People's Bank should faithfully discharge its basic functions like central banks elsewhere throughout the world. On the one hand, it should independently draw up and execute (implement) monetary policy, apply various means, control the currency supply, regulate currency demand, guard against inflation, and maintain the stability of the currency and the entire macroeconomy. On the other hand, it should strictly control and supervise finance and banking institutions, employing policies and laws to regularize all finance and banking activities to ensure that finance and banking institutions operate in a healthy and secure way.

Although the Chinese People's Bank nominally became responsible in 1984 for performing the functions of a central bank, it is still a very long way from meeting the standards and requirements of a true central bank. This shows up prominently in the following ways: First, the People's Bank continues to engage in day-to-day financial activities such as handling special loans for economic and technical development, loans for the old, the young, and for people living in border regions or impoverished areas, loans to assist the needy, and loans for gold production. This often mires it in irksome routine currency credit matters, which impedes completion of its basic functions. Second, since the government also checks on the profitability of the People's Bank, instituting a profit retention system for the bank, the People's Bank and its branches and sub-branches are strongly motivated to make a profit by running all kinds of businesses that compete for profit with the "civilian sector." Thus, the bank loses its detached position. Third, the Chinese People's Bank is subject to too much administrative interference from top to bottom. It lacks the independence it should have. For example, the central government frequently overdraws and borrows from the People's Bank. In particular, the strong influence and interference of local governments at all levels on People's Bank branches and sub-branches (that is, the so-called "localization of central bank actions") seriously impair the People's Bank's performance of its functions. Fourth, the People's Bank's macroeconomic regulation and control mechanism is deficient. It lacks effective means of regulation and control. Fifth, the People's Bank lacks sufficient independence in the drafting and execution of monetary policy. The twin goals of "developing the economy and stabilizing the currency" frequently mean that the People's Bank must passively meet the needs of "economic development";

thus, it is unable to attain the goal of "stabilizing the currency." (Examples include the several bouts of inflation that have occurred during the past more than a decade). Sixth, the People's Bank lacks effective supervision and control over financial activities throughout the country. This is also an important reason for the current disarray in the financial order and the laxness of financial discipline.

Therefore, the principal goal and task of Chinese finance and banking system reform is to make the People's Bank into a real central bank in fact as well as in name, using this as a basis for the founding of a strong central bank regulation and control system that independently executes monetary policy. This being the requirement, problems in the following several regards must now be solved properly:

1. Draw up laws and regulations that clearly specify the functions of the People's Bank to regulate its conduct. As the authoritative institution for state financial control, the most important task of the People's Bank is to carry out national monetary policy, to control the issuance of currency, to regulate currency supply, and to ensure implementation and exercise of a uniform monetary policy throughout the country. As the bank's bank, or the "ultimate lender," the People's Bank should generally provide finance capital only for the head offices of national commercial banks. It should not engage in day-to-day financial business or business of a commercial nature. As current agencies of the head office of the People's Bank, branches and sub-branches at the provincial (or municipal and autonomous region) level or below should no longer handle the routine issuance of credit, or the scale of credit readjustments. Instead, it should shift its work emphasis to greater financial supervision and control, financial investigation and statistical research, management of the national treasury, affiliated bank settlement of accounts, and foreign exchange control.

2. Straighten out relations between government finance and the banks, putting an end to the correlation between fiscal deficits and currency issuance to begin to build a macroeconomic mechanism of mutual coordination and mutual checks and balances between the People's Bank and public finance. Since the advent of reform, disarray in the fiscal and financial systems, and the mixing of fiscal and banking functions has been extremely serious. This has shown up most prominently in a matter that has already attracted notice, namely "forced nationalization of credit funds" (such as huge government overdrafts on and loans from the People's Bank, and the banks bearing responsibility for disbursements that the government should make but does not make, or compensation that the government should pay but does not pay. It has also appeared in bank issuance of so-called "stabilization and unity loans" and government initiative in making government loans" (such as fiscal units' use of the intermittent funds within budget and funds they control outside



of budget to set up government financial credit institutions and to found various kinds of development corporations. Alternatively, government directly invests in various local corporations, or plays a direct role in financial activities such as the buying and selling of negotiable securities, real estate development, trusts, and leasing). The damage this causes is rather severe. The main way to straighten out relations between government finance and the People's Bank lies in legislation that prohibits the government from borrowing or over-drawing funds from the People's Bank, the government solving its problem of a shortage of funds resulting from making pay-outs before obtaining receipts through the issuance of short-term government bonds. Government deficits must be made up through the issuance of medium and long-term government bonds. At the same time, the People's Bank should increase its regulation and control of the basic money supply, and maintain a high degree of funds liquidity. It should use the market mechanism to take money out of and put money into circulation as economic development places demands on the money supply. Yet another point must be raised in connection with the relationship between banks and government finance, and that is the need for earliest possible elimination of the profit retention system and the system for the surrender of tax receipts by the People's Bank and its branches and sub-branches. A People's Bank independent financial budgeting and control system should be set up instead, all profits that the People's Bank realizes being paid to the central government treasury, and all of its losses being borne by the central government treasury.

3. Increase the independence of the central bank. The central bank independence issue is an issue of the relationship between the central bank and the government. Because of differences in economic development and the evolution of the central bank in separate countries, the independence of the central bank in the exercise of functions and powers is not the same in different countries of the world today. In the United States, Germany, and Sweden, the central bank is very independent. It is not responsible to the government, but to the legislative body. Its leaders are not members of the cabinet, and its policies are generally free from government interference. In the United Kingdom, Japan, and France, the central bank is subordinate to the government; however, in the drafting and implementation of financial policies, it maintains substantial independence. In most of these countries, a fairly detached policy-making organization is set up within the central bank. Examples include the board of directors of the Bank of England, the policy committee of the Bank of Japan, and the National Credit Committee of the Bank of France. Why should the central bank be largely independent? The main reason is that governments generally have a pronounced short-term attitude. They frequently place too much emphasis on short-term economic growth, attaching more importance to it than to currency stability. If the central bank is largely independent, it can avoid such a tilt, effectively carry out monetary policy,

and ensure currency and price stability, thereby creating conditions for long-term, stable economic growth. Generally, the countries in which the central bank is largely independent are also the ones in which the currency is stable and the economy is rather well-developed. As the nation's central bank, the People's Bank should be substantially independent. The government should ensure that the People's Bank has the authority and the responsibility to conduct an independent monetary policy. It should have the authority to regulate currency circulation to ensure that the basic stability of the renminbi. Under the present circumstances in China, the People's Bank implementation of monetary policy under leadership of the State Council helps bolster central bank macroeconomic regulation and control for better and faster development of the nation's economy. As China's market economy develops, and as the central bank matures and improves, practical experiences will have to be summarized and a decision made on the basis of actual circumstances as to whether the People's Bank's current subordination requires readjustment or change. In addition, in order to avoid People's Bank branches and sub-branches being subjected to local government interference, the approach of setting up People's Bank branches and sub-branches in key cities, that is, a trans-regional set-up, may be explored and tried out to set the stage for implementation of a central bank uniform currency policy.

4. Perfect the People's Bank's regulation and control mechanism. The ultimate goal of the central bank's currency policy is to keep the currency stable in order to advance economic development. In addition, as the market economy shifts into high gear, going from no development to development, the People's Bank will have to change from mostly direct to mostly indirect methods of regulation and control. Under present conditions, the state must be prepared for active trial, reform, and perfection of the People's Bank's indirect ways and means of regulation and control. This includes the gradual setting of interest rates by the market, gradual institution of a multi-tier savings reserve system, expansion of rediscounting, and trial operation of open market business. Along with this must be speedy establishment of a People's Bank investigation and study information system, and the perfection of a People's Bank system for preparing statistics, analyzing, and forecasting currency supply and the entire macro-economy to provide scientific data for the formulation of monetary policy.

5. Better People's Bank supervision and control of monetary policy implementation, financial market operations, and financial institutions' actions for the building of a normal financial order. This requires, first of all, paying close attention to the drafting and perfecting of financial laws and regulations, including the drafting of a "Central Bank Law," a "Commercial Bank Law," a "Negotiable Instruments Law," and an "Insurance Law" to provide guidelines for financial operations, and laws on which the People Bank can rely to exercise supervision and control. In addition, the People's Bank must

increase its auditing and supervisory forces, improve its auditing and supervisory skills, and exercise strict supervision and control over both banks and non-banking financial institutions to ensure healthy and orderly finance and banking activities in the country, control of the country's finance and banking being regulated according to law.

It must be pointed out that in the process of changing from a planned economy to a market economy, making the People's Bank regulation and control system sound, and perfecting its regulation and control mechanism is also a gradual, step-by-step process that cannot be done in haste. Furthermore, in this process, finance and banking activities and conduct may also exhibit a very marked transitional coloration. For example, when conditions do not exist for the implementation of indirect financial regulation and control means or for them to play a role, traditional direct financial regulation and control methods (such as the use of caps on credit) may have to be retained for a period. In short, we must proceed from actual conditions and circumstances in the transformation of the People's Bank's functions and the building of a new central bank regulation and control system, and avoid the creation of "vacuums" and loopholes in the macroregulation and control of finance and banking that may lead to loss of macroeconomic control.

### III. Separation of Policy Financing From Commercial Financing To Build a Financial System in Which State-Owned Commercial Banks Are the Main Entities With Many Kinds of Financial Institutions Existing at the Same Time

Thanks to more than a decade of reform, China's finance and banking system has undergone very many changes. The traditional banking system characterized primarily by "great uniformity" has given way to the current banking system in which many kinds of finance and banking institutions exist at the same time, including the four major specialized banks, nearly 10 regional commercial banks, a number of insurance companies, trust investment corporations, negotiable securities corporations, finance companies, and rural and urban credit cooperatives.

The current finance and banking system is still incomplete, not soundly based, and contains numerous problems, principals of which are the following:

1) The specialized banks combine two functions in a single body, namely, they handle both business done for policy reasons and commercial transactions. This combining in a single body of two kinds of business is bound to produce a blurring of the character, the functions, and the responsibilities of the specialized banks, and create confusion in their actions. When called upon to do business of a policy nature, they usually emphasize that they are "commercial banks," and they stress their autonomy and their interests. When called upon to act as commercial banks, and to seek to maintain funds in balance, they frequently emphasize that they are policy banks. The result is to put themselves in position to gain

both the favored treatment accorded for performance of policy functions and the rights of finance and banking enterprises while shouldering neither the duties of policy banks nor the responsibilities of financial enterprises. In fact, because the two kinds of business are bundled together, the specialized banks are frequently subjected to control from a higher level and from local governments. This makes it difficult for them to become economic entities that make their own operating decisions, that are responsible for their own profits and losses, that bear their own risks, and that exercise self-restraint. Such a system does not facilitate central bank macroeconomic regulation and control. (For example, impelled by the administrative interference of local governments and their own interests, the specialized banks frequently divert to the development of local industry funds that are intended for policy purposes such as the procurement of agricultural and sideline products. Meanwhile, they blame the central bank for the shortage of credit, thereby forcing the central bank to expand the issuance of currency). Nor does this system facilitate smooth implementation of national industrial policies. (Acting out of their own interests, the specialized banks frequently do not apply low profit, high risk policy credit on time or in the full amount to the intended purpose, or they divert it to other uses, thereby hampering smooth implementation of national industrial policy). Loans for policy purposes are usually issued by the government for designated purposes. Actually, however, they become a large common pot of funds whose good or bad use, or large or small loss for which no one is responsible. Consequently, the specialized banks usually do not make sure to control policy loans closely, and units using the funds also lack the sense of responsibility they should have then they use the funds. Thus, returns from the use of policy loans are extremely low.

2) The specialized banks do not compete with each other; they lack vigor and vitality. The professional division of labor among the four specialized banks has become a professional advantage for each. Professional monopoly enables each of the specialized banks to gain commensurate monopoly profits without having to make any special effort or provide special services. This greatly weakens the operating zeal and the creativity of the specialized banks. In addition, the professional monopoly also leads to the sequestering of funds, and the splitting up of financial markets, which both stifles the vitality and efficiency of the financial system and lowers the effectiveness of central bank macroeconomic regulation and control.

3) Not only do the specialized banks exercise monopoly in the division of labor realm, but in the entire finance and banking system too, the state-owned specialized banks exercise a high degree of monopoly. Currently the four state-owned specialized banks account for 90 percent of the personnel employed in finance and banking nationwide, for 98 percent of the network outlet points, and for 84 percent of financial assets. They monopolize 75 percent of the savings and loan business in society.

Other banks and nonbanking financial institutions simply cannot compete with the four state-owned specialized banks; consequently, efficiency and quality of service in China's finance and banking business has declined.

Solution to the above problem requires reform of the present system of financial organization to improve it gradually. This includes earliest possibly founding of policy banks; changing the specialized bank's operating mechanism to make them into true commercial banks, and steadily developing nonbanking and other than state-owned financial institutions.

First is earliest possible founding of policy banks. The founding of policy banks is the key to separating policy financing from commercial financial to solve the problem of national specialized banks combining two kinds of business in a single institution. It would break the direct link between credit provided for policy reasons and basic money, ensure the People's Bank's initiative in regulating and controlling basic money, and would play a not to be underestimated role in straightening out the relationship between public finance and the People's Bank, and in truly transforming the operating mechanism of the specialized banks. It would enable them to become true commercial banks and both a finance and banking system and finance and banking organization suited to the needs of a socialist market economy. This is a major part of the intensification of finance and banking system reform.

Policy banks are financial institutions specifically responsible for handling policy loans. Thus, all policy loans should be within their professional purview. The main kinds of policy loans for which state-owned banks are responsible at the present time are the following: 1) state investment loans for investment in the development of basic industries and basic facilities; 2) loans for the stabilization of agricultural production that the state directs banks to issue for grain, cotton, and edible oil reserves, for contract procurement of agricultural and sideline products, and for the development of agriculture; 3) buyer and seller loans provided for China's import and export of large complete plants; 4) some important special loans that the state directs banks to make to support and promote the economic opening up and development of certain regions. These include loans for the development of science and technology, loans for the aged, the young, people living in border areas, and people living in impoverished areas, and discounted interest loans to help the needy. Such business should be conducted by the policy banks whose founding is contemplated (The State Long-Term Development Credit Bank, the Bank of Agriculture, and the Import-Export Credit Bank).

The crux of good operation of policy banks lies in better management and supervision of policy loans, all possible being done to improve returns from the use of policy loans. First, the area of responsibility for policy loans must be defined. Both the banks and the users of the

loans must bear the risk and the responsibility for the loans, user unit garnishing, diversion, or defaults on policy loans, and loan losses resulting from bank mistakes being punished so as to ensure that policy loans are issued and used for the purposes, in the amount, and at the interest rate that the state designates, as well as to ensure complete repayment at the designated time. This will avoid the present situation in which responsibility for policy loans is not fixed, and both risks and losses are borne entirely by the state. At the same time, the policy loan supervision and control system and the supervisory mechanism must be perfected. Policy banks must regularly report to the appropriate People's Bank and Ministry of Finance units the issuance of loans and their intended uses. The People's Bank and units concerned must also audit, supervise, and check on policy loan bank's business policies, and how well the value of state-owned funds is being protected and increased. In short, policy banks would not compete with commercial banking institutions, but they would still have to improve administration and management so as to ensure preservation and increase in value of state-owned assets.

The founding of policy banks is an extremely complex and daunting task requiring careful planning, painstaking organization, and prudent implementation.

Second is the transformation of the specialized banks into true commercial banks. One important goal in founding policy banks is the shedding of specialized banks' policy financing functions, allowing them to concentrate on commercial financing to operate in accordance with the modern commercial bank operating mechanism.

Modern commercial banks are a form of a bank related to a developed market economy. Although commercial banks have developed differently in every country of the world, commercial banks share some common characteristics around the world: 1) they employ a modern juridical person corporation as their basic form of enterprise organization, and their basic operating goal is maximization of the rights and interests of shareholders, that is, greatest profit and least risk; 2) commercial bank business consists mostly of industrial and commercial savings accounts and short-term loans; however, they are increasingly becoming full service banks; thus, they are termed "financial department stores"; 3) commercial banks provide exchange and payment services mostly through the handling of check withdrawals from current deposits. Thus they have the ability and the mechanism for creating currency and expanding credit.

The transformation from specialized banks to state-owned commercial banks must be based on China's national circumstances while taking into account the successful experiences of foreign commercial banks. This means doing the following:

1) Appropriate splitting up of the specialized national banks. Some banks are too large. Even after becoming commercial banks, they would still be able to maintain a



monopoly. Consideration should be given to the appropriate splitting up of some specialized banks in order to overcome the business monopoly of secondary level banks. They might be divided into several independent accounting regional commercial banks responsible for their own profits and losses. Once the specialized banks have been reorganized as commercial banks, the specialized division of labor among them should be dismantled. The overlapping of business should be permitted to encourage fair and normal competition.

2) Clarification of equity relationships. The shortcomings of China's specialized banks today are largely attributable to uncertain equity relationships. Equity relationships might be clarified in any of several ways, but on the basis of the way both domestic and foreign banks operate, the stock system might be a rather ideal choice. Institution of the stock system in commercial banks would help the separation of government administration and enterprise management, and it would help increase equity limitations, thereby making banks financial enterprises having authority to make their own decisions, that seek to attain balance, that bear their own risks, and that are responsible for their own profits and losses.

3) Strict regulation of commercial banks business. In today's world, banks are providing more services, more complete services, and more international services. However, given the management level of China's banks and the state of development of China's financial markets, commercial banks might better not engage in the insurance, trust, and negotiable securities businesses in order to shield them from the risks of doing business in negotiable securities and trusts and for the sake of the stable development of securities markets and the national economy.

4) Simultaneous with commercial banks own control over the ratio between assets and liabilities, the central bank should also increase supervision and control over commercial banks, both to prevent financial disarray stemming from inept bank management and also to prevent an overly rapid expansion of commercial bank credit and an ensuing intensification of inflation.

In addition to the state-owned commercial banks, China's commercial banking system also includes the Bank of Communications, and the China Trust Enterprise Bank, the Shekou Zhaoshang Bank, the Shenzhen Development Bank, the Fujian Xingye Bank, the Guangdong Development Bank, the Guangda Bank, the Huaxia Bank, the Shanghai Pudong Development Bank, and the contemplated Chinese Rural Cooperative Bank (formed from the removal of business functions from the Bank of Agriculture for incorporation into rural credit cooperatives), and the City Cooperative Bank (a bank to be trial operated using urban credit cooperatives as a basis). These commercial banks exist outside the state-owned, state-operated system. They operate under a stock system or they are a fully funded subsidiary of an enterprise bloc. They also exist outside the specialized

bank framework of an administrative district-established institution. Instead, they serve an economic area. In their operation, they also avoid the "large common pot" operating style of the specialized banks. They practice the internationally common full service banking and control over the ratio between assets and liabilities; thus, they have become a "new family" possessed of substantial vim and vigor in China's finance and banking system. In overall terms, however, these institutions have little power. Therefore, when improving them, we should encourage the operating of more regional commercial banks, and gradual opening of the development of nonstate owned financial institutions.

In addition, we must boldly and actively bring foreign banks into China on the principle of reciprocity and mutual benefit; however, the scale and the pace of their introduction must be consistent with China's financial management level and the legal climate. At the same time, greater control must be exercised over the operations of foreign-owned banks.

Third is steady development of nonbanking financial institutions. The creation of a finance and banking organization system that meets the needs of a market economy, and that is fully competitive and imbued with vitality requires not only the founding of policy banks and the conversion of national specialized banks into commercial banks, but also the development of nonbanking financial institutions to bring about a situation in which various kinds of financial institutions exist together.

There are two main reasons for the development of nonbanking financial institutions: one is to meet the multifaceted savings and investment needs of different economic entities. The second is to serve as a competitor with the commercial banks. This will help increase pressures on the commercial banks, and stir the initiative, zeal, and creativity of the commercial banks, thereby increasing the operating efficiency of the financial system as a whole.

During the past more than a decade of reform, we have actively examined and tried out the development of nonbanking financial institutions, and we have reconstituted or developed a large number of nonbanking financial institutions such as insurance companies, trust and investment companies, negotiable securities companies, financing and leasing companies, and enterprise bloc financial companies. Nevertheless, some problems that cannot be ignored remain. One is that such institutions are very limited in number and scale by comparison with banks. Second, the kinds of such institutions is incomplete. Third, affected by the traditional economic model, quite a few nonbanking financial institutions retain remnants of and prolong the use of the operating methods of the large national banks. They lack flexibility and autonomy.

The development of nonbanking financial institutions faces three tasks: One is improvement. The transformation of nonbanking financial institutions must be speeded up to meet the needs of a socialist market economy. The intensification of reform should serve to change their operating approach, their style of operation, and their management system to enable them gradually to make their own operating decisions, be responsible for their own profits and losses, shoulder risks themselves, and develop themselves. At the same time, governments and financial control departments at all levels must simplify administration and delegate authority. They must give nonbanking financial institutions the operating autonomy they need, thereby creating conditions for them to go all out in controlling the ratio between assets and liabilities, or controlling asset risks. Second is development. This means using the existing foundation to innovate, and to develop standardized and diversified nonbanking financial institutions, and the borrowing of foreign experiences to increase the kinds and numbers of China's non-banking financial institutions. Third is better supervision and control. The central bank must increase supervision and control over nonbanking financial institutions regarding their capital, their scale of business, and their methods of operation to prevent their disturbing and damaging the financial operating order.

#### **IV. Standardization of Financial Market Operation, Building Financial Markets That Are Uniformly Open, Compete in an Orderly Fashion, and Are Strictly Controlled**

Financial markets are markets for the borrowing and lending of money, and for the buying and selling of all kinds of negotiable instruments and negotiable securities. On the basis of the time limits set by financial instruments, financial markets may be divided into money markets (also termed short-term funds markets), and capital markets (also termed long-term financial markets). Money markets are financial markets that deal in money funds financing for up to one year. They include bank short-term savings and loan markets, commercial paper acceptance and discounting markets, short-term national bond markets, and same trade short-term lending markets. The latter two are jointly termed negotiable securities markets.

The founding of financial markets that are uniformly open, that compete in an orderly fashion, and that are strictly controlled holds important significance for the development of a socialist market economy. As an important integral part of the market system, the basic function of financial markets is the flexible transfer of funds from surplus to shortage areas, and from low yield to high yield areas. This requires the use of various channels and various methods to mobilize and gather together funds to maximize the amount of funds available. At the same time, it requires use of the market optimization mechanism to permit the optimum allocation of funds. Therefore, financial markets are not only an effective way in which to improve the utilization of funds and thus increase society's economic returns, but

are also necessary for optimum allocation of social resources and rational readjustment of the industrial structure.

Thanks to more than a decade of reform, China's financial markets have seen some development. This is manifested primarily in the following: 1) Varying degrees of development of money markets (including same trade short-term lending markets and negotiable instrument discounting markets), and capital markets (including stock markets and negotiable securities markets); 2) market media institutions (such as negotiable securities companies, negotiable securities exchanges, the negotiable securities quotation system, negotiable securities registration companies, and negotiable securities rating companies), which have gradually become more diversified; 3) market entities have become more numerous: government, enterprises, individuals, banks, and non-banking financial institutions all entering the market to become both market fund suppliers and users; and 4) market control has gradually become more regulated by the law and regulations.

At the same time, however, we must also realize that the overall level of both money markets and capital markets is still relatively low. Both still have fairly serious and glaring problems. An example is the inter-bank trade short-term lending markets, which have not yet formed a national inter-bank discounting market status center to provide responsive feedback that transcends the banking system. As a result, national funds discounting channels have narrowed, in addition to which information does not flow smoothly making discounting costs higher. They exceed the time limits, uses, and interest rate ceilings that the People's Bank sets for inter-bank discount funds, as well as the discounted funds that exceed discounted fund inputs as a percentage of all savings or capital. Funds converted to credit funds in the name of discounting are issued as loans in the form of credit, or discounted funds are used to make up for the shortage of working capital in enterprises or to make up for the shortage of investment in fixed assets. The long lack of distinction between long-term funds and short-term funds has resulted in the flow of large amounts of funds from money markets into capital markets and real estate markets. The long-term use of short-term funds is extremely common everywhere, and it upsets the order of financial markets. Another example is the stock market where shares have been issued or indiscriminately issued without the approval of government departments concerned. Stock market self-discipline is poor, falsification and deception occurs, insider trading takes place, stock market speculation is rampant, the juridical entity stock market is separate from the individual stock market, and the A shares market and the B shares market are separate. Other examples may be found in the price formation and the financial instruments interest rate mechanism in financial markets. Problems in financial markets also stem from administrative distortions, which hamper rational flow of all kinds of financial instruments, and macroeconomic regulation and control.

With the establishment and development of China's socialist market economy, a nationwide uniform, open, competitive, and orderly financial market becomes a priority task. First, we must use the formation of inter-bank discounting markets in every jurisdiction as a foundation for earliest possible establishment of a nationwide inter-bank discounting market system. Nationwide inter-bank funds discounting supervision and control must also be intensified so that inter-bank funds discounting is done according to law, in a standard way, and scientifically to eliminate disorder in funds discounting. In perfecting money markets, the main entities in the market and their behavior must be clearly defined and standardized, and the direct link between money markets and capital markets must be severed to prevent the use of short-term funds for long-term purposes. This will enable money markets to become monetary policy instruments that the central bank can use, and main markets for the regulation and control of basic currency and the money supply. Improvement of negotiable securities markets includes improvement of national bond markets, and regularization of securities markets, particularly enhancement of the stock markets. Transformation of the enterprise share system must serve as a basis for regularizing the issuance and circulation of stock shares to set the stage for a common juridical person and individual stock market, and A share and B share markets. The regional funds boycotting and the departmental separatism stemming from regional or departmental protectionism must be changed at once to allow the free flow of funds and negotiable securities to give full expression to the overall performance of financial markets. In particular, more must be done to build a legal system to enhance financial market control. The state must respond to the needs inherent in financial market operation by issuing standard guidelines in the form of laws and regulations about conditions for entry into financial markets, and behavior of the main market entities. It must control, guide, coordinate, and supervise financial trading activities, using its influence on financial market credit costs, credit distribution, and credit structure to balance financial market supply and demand, to reduce market fluctuations, to stabilize the financial order, and to avoid adverse effects on the overall economy resulting from the chaotic behavior of financial markets.

As was said above, the second obstacle to current development of financial markets is the price of capital. Serious problems continue in the setting of interest rates by administrative fiat and on the basis of structural distortions. Specifically, the two-track interest rates (meaning the low interest rates of the central bank and all specialized banks, and the high interest rates of money and capital markets) have become the root of numerous problems in China's financial and economic life today (such as funds shortages, but large amounts of funds circulating outside the system; loss of macrofinancial control; disarray in the financial order, or even incipient corruption). Overheating of the stock market, the wild rise in real estate prices, and the fall in the renminbi

exchange rate are all attributable to the two-track interest rates. In short, the activation of interest rate measures and reform of the way in which the market sets interest rates are sluggish. Two seemingly contradictory considerations or apprehensions exist. One is the supposition that enterprise can continue to obtain funds from the large national common pot, and thus there is little sensitivity to whether interest rates are high or low. The second is the supposition that enterprises will be unable to stand a rise in interest rates. However, first of all, even though the state-owned economy remains insensitive to interest rate changes, in the final analysis, we have a rather large and rapidly growing nonstate-owned economy that is fairly sensitive to interest rates. In particular, city and countryside individual savings accounts are extremely sensitive to interest rates. This has been attested to by the rise in fall in savings during the past several years. Second, China has a funds shortage. At the officially set price for funds, bank interest rates are relatively low, and even were they raised slightly, they would still be quite low. If enterprises cannot stand even such interest rates, that means that low interest rates are maintaining low efficiency, and at the cost of doing harm to the interests of savings account holders. This low-interest policy that violates efficiency principles and fairness principles cannot continue. Changing the banks officially set too low interest rates and distortions in the interest rate system will require merging the present two-track interest rates to a single track on which the market sets the interest rate to straighten out interest rate relationships. All interest rates must reflect time, cost, and risk differences. Rational differences in interest must be maintained, and an interest rate system must be formed based on basic interest rate of the central bank that is adjusted from time to time to reflect the market interest rate, and that fully reflects the character and needs of a market economy.

30 September 1993

Comrade He Dexu [0149 1795 2485] provided material and helped with the drafting of this article using my line of thinking as a guide. Following discussion and revision, many changes were made to the draft and the article was completed.

### Commentary Series on Improving Financial Reform

#### Establish Strong Regulatory System

94CE0236A Beijing JINRONG SHIBAO in Chinese  
16 Dec 93 p 1

[Article by JINRONG SHIBAO reporter Zhang Xinfang: "Establish Strong Central Bank Regulatory System"—Commentary Series No. 1 on Deepening Financial Reform]

[Text] It was pointed out at the meeting of branch managers of the People's Bank of China throughout the



country held in Beijing from 5 - 7 December that the most important task in deepening the financial reform is to change the functions of the people's bank and turn it into a genuine central bank. The central bank plays a dominant role in the new financial system. Therefore, to gradually establish a strong central bank regulatory system and increase the capability of the central bank in exercising macroeconomic control is of primary importance in reforming the financial system.

Reform of China's financial system began in the late 1970's. After 14 years of efforts from 1978 to 1992, a financial system with the central bank as the leading body and state-owned specialized banks as the dominant parts and with various diversified sectors co-existing and coordinating with each other has been basically formed. The financial system has developed considerably in terms of variety and quantity. Prior to 1978, there was only one People's Bank of China and several rural credit cooperatives in the country. As of now, in addition to the People's Bank of China, there are four specialized banks, namely the Industrial and Commercial Bank of China, the Bank of China, the People's Construction Bank of China and the Agricultural Bank of China; and 10 nation-wide and regional commercial banks, namely the Bank of Communications, the Zhongxin Industrial Bank, the Everbright Bank of China, the Zhaoshang Bank, the Shenzhen Development Bank, the Guangdong Development Bank, the Fujian Development Bank, the Huaxia Bank, the Pudong Development Bank of Shanghai and the Zhejiang Commercial Bank. There are also over 80 securities companies and a large number of financial companies and modernized financing and leaseholding companies. In addition, there are many urban and rural credit cooperatives in various cities and towns. Since the approval of the first foreign-funded bank in Shenzhen, foreign financial institutions have set up more than 90 branches in China. As of now, China has basically changed the "large and consolidated" banking system to one of many financial institutions working side by side. This kind of reform and exploration are aimed at keeping abreast of the economic development in the past with emphasis on planned economy.

The party's 14th National Congress explicitly put forward the need to establish a new system of socialist market economy. Apparently the financial system with emphasis on planned economy in the past is unable to keep pace with the new changes. Efforts must be made to change this economic system in accordance with the requirements of the socialist market economy. It is similar to the fact that people need to change their own clothes to keep pace with the climatic changes in spring, summer, autumn and winter. The first thing to be affected is the change of the functions of the people's bank so as to establish a strong central bank regulatory system.

The central bank plays a leading role in the new financial system. Its major functions should be: lead and control all financial institutions in the country, scientifically

formulate and implement financial and monetary policy, control the supply of currency and ensure the basic stability of currency value; and supervise and control financial institutions, ensure safe and effective operations in the financial system.

Under the conditions of the socialist market economy, the People's Bank of China has always regarded the task of increasing efficiency in exercising macroeconomic control as its major goal. However, the dual target of achieving both economic growth and currency stability and that of accomplishing both overall control and structural readjustment constitutes the major reason for the weak macroeconomic control of the central bank.

For a long period, China has always adopted monetary policies by ensuring both economic development and price stability. However, in practice, the governments in various localities, on the one hand, often attach more importance in economic development and sedulously work hard to seek high rates of economic growth. They often use investments with poor economic results to achieve their goal for economic growth, resulting in the excessive issuance of currency and causing inflation. On the other hand, due to lack of an efficient and flexible mechanism to regulate currency and credit, a tendency to restrain economic growth which causes economic decline often prevails in order to stabilize the currency value. This not only prevents the national economy from developing healthily, but also loses public support and causes economic instability. Since the implementation of the reform and opening up policy, the readjustment in 1981, the tightening of the money supply in 1985, the improvement and rectification campaign in 1989 and the strengthening of macroeconomic control in 1993 all fall into this category. Naturally the macroeconomic control this year is different than those in the past. It is not an overall retrenchment, but a kind of structural readjustment. Therefore, the central bank should undoubtedly regard the task of stabilizing the currency value as its major target, and promote economic growth while ensuring the stability of the currency.

In a socialist market economy, it is an usual or even common phenomenon that the total social demand exceeds the social supply. Often the growth of the total social demand is quite strong. In view of this situation, the people's bank must change from attaching importance to both overall control and structural readjustment to placing emphasis on overall control in order to do a still better job in maintaining currency stability. That is to control the total amount of currency supplied by the whole banking system. Currency is created by banks in the form of loans. To place the total amount of loans under control is the key in controlling the supply of currency. The people's bank must issue or withdraw the basic currency according to the rise or fall of commodity prices, the rate of growth of the supply of currency and the amount of excess deposits.

With the deepening of reform of the financial system, the people's bank should work hard to change from its direct

control of the amount of loans to the use of economic, legal and administrative means by carrying out open market operations, keeping adequate reserve funds for deposits, determining the proper interest rates, loan ceilings and exchange rates. On the basis of the conditions in market development, it should gradually attach more importance to indirect control and eventually regard indirect control as its principal measure.

The people's bank must strengthen the control of the basic currency, reduce the amount of uncovered advance and gradually give priority to selling and buying state bonds, financial bonds, using them as securities for loans and handling note discount businesses.

Another major function of the central bank is to supervise and control the financial institutions, and ensure that the financial system is safe and sound in operation. All branches of the people's bank must pay full attention to supervising and controlling the financial system and conducting investigation and study. With the gradual establishment of the socialist market economy, the deepening of the reform of the financial system and the development of banking businesses, the number of regional financial institutions with the status of a legal person is increasing, and there are more and more banking business activities. As there is more competition among financial institutions in various districts and regions, contradictions among the financial institutions, between the financial institutions and the enterprises and among individuals have continued to emerge. On the other hand, the basic task of the commercial banks is to do financing, while their major target is to make maximum profit. However, there is a contradiction between profit-making and the need to ensure repayment. The risk of investments and loans with larger profits is often poor, while safe investments are always less profitable. Financial institutions must achieve balance and make the best choice among factors of safety, liquidity and profitability. Thus, the central bank and its branches must use various methods to exercise strict supervision and control over the business activities of various monetary institutions. Meanwhile, they must also keep their eyes on various unauthorized, illegal fund-raising and financing activities in all localities.

First of all, a direct and effective measure is to strengthen the management of the proportions of assets and liabilities and the management of risks. The basic principle in strengthening the management of the proportions of assets and liabilities is as follows:

- 1) It is necessary to restrain the use of funds by means of the sources of assets.
- 2) It is essential to establish structural correspondence. That is, the utilization of long-term capital must correspond with the stable sources of such capital.
- 3) It is imperative to make the best use of funds.
- 4) It is necessary to divert risks. It should be stipulated that loans to any client should not exceed a certain

percentage of the client's capital. Efforts must be made to avoid extending exorbitant loans to one enterprise only. The principal measure in strengthening management of risks for assets is to divide the bank's assets into different categories, estimate risks of such assets and adopt different forms of management for the assets of different risks. Working out a regulation on the rate of abundance of capital and determining the risks of assets are something fundamental in doing management of risks for assets. If it is said that the asset liability ratio management emphasizes quantitative control, the assets risk management is mainly aimed at exercising an overall qualitative control over the bank's assets and liabilities. The management of risks for assets is a complex system engineering project. Its entire process involves the forecast, prevention and diversion of risks.

Next, to make the reform of the financial system a success, it is necessary to improve legislation on banking. While implementing a reform measure, it is essential to formulate a complete set of relevant laws, regulations, systems and methods. Right now, the state is working on the "Law of People's Bank of China," the "Banking Law of the People's Republic of China," "Insurance Law," and the "Law of Bills" and some relevant rules, regulations and measures. They are aimed at helping financial institutions carry out and manage their businesses, supervising and controlling them according to law, maintaining financial order and stability and ensuring the safety of the financial system. For example, in light of the interest rate war among some financial institutions in the province during the first quarter of this year, the branch of the People's Bank of China in Henan Province had enacted a 50-article regulation to strengthen the control of interest rates, stopped the war on interest rates and curbed the competition among various financial institutions in the province.

During the period of transition from planned economy to socialist market economy, the situation is usually complicated in the realm of financial affairs. It often involves important issues of policy. Each reform measure must be formulated and implemented in close touch with reality. All kinds of contradictions and problems in economic and monetary affairs must be studied and analyzed timely, accurately and completely; and measures taken to resolve them. China is a vast country. Situations differ in thousands of ways in the eastern and western regions, special economic zones, the coastal and the inland areas, economically developed districts, and old liberated, minority, border and poverty-stricken regions. The task of the people's bank and its various branches in conducting investigation and study remains arduous. Only by doing a good job in conducting investigation and study, will it be possible for us to build a solid foundation for scientifically formulating and implementing the currency and credit policies and strengthening macroeconomic control. Meantime, we will be able to help the various localities to develop their economy, and assist enterprises and relevant departments to strengthen their management, become market-oriented and improve their economic efficiency.

With the deepening of the financial structural reform, banks are playing an increasingly important role in the national economy and gradually becoming important sectors of the state in exercising macroeconomic control. As a leading department in the new financial system, the People's Bank of China must closely follow the guideline laid down in the "Decision" adopted by the 3d Plenary Session of the 14th National CPC Congress, further change its functions, and genuinely shoulder the glorious duties and missions assigned it by the Party Central Committee and the State Council.

### **Separate Policy-Oriented, Commercial Banks**

94CE0236B Beijing JINRONG SHIBAO in Chinese  
17 Dec 93 p 1

[Article by JINRONG SHIBAO reporter Han Suqin: "Separation of Policy-Lending Banking from Commercial Banking Necessary in Carrying Out Structural Reform"—Commentary Series No 2 on Deepening Financial Reform]

[Text] For a long period of time, state-owned banks play a dominant role in China's financial system. With the functions of government and enterprises not separated, the state-owned banks play the dual role of both policy-lending and commercial banking. They monopolize the banking business to a certain extent, creating a situation characterized by lack of competition and low efficiency. This has distorted the role of the specialized banks prevented the banks from operating in the manner of enterprises and curbed the influence of the banking industry in the realm of economy. All this does not conform with the principle of seeking maximum beneficial returns in market economy. Nor is it conducive to building the foundation for strengthening the macroeconomic control.

China is a developing nation which will have a shortage of funds for a long time to come. Meanwhile, the nation has a bound duty to insure that enough funds are available in promoting economic development in backward areas, in developing infrastructural facilities and major construction projects, in increasing agricultural production and in readjusting the industrial structure. Policy-oriented banking is a form of financing that the state uses in performing the aforementioned functions.

Policy-oriented banking is aimed at resolving issues for better social efficiency. However, there are some economic sectors with lower social efficiency that cannot afford to make the regular interest payments for their loans. For example, one of major investments of policy-lending banks is agriculture, including funds for the storage and purchase of farm and sideline products and for agricultural development. China is a major farming country. Either right now or in the future, agriculture remains China's foundation for economic development and social stability. This situation will not change, despite the development of the market economy. Meanwhile, agriculture is also a sector that requires a large

amount of investment, while its financial returns are low and its cycle of investment turnover long. Therefore the use of policy-oriented banking in support of agricultural development is a long-term task. In this sense, this form of banking is similar to the state policy, which help the state exercise its macroeconomic control. This is the basic difference between policy-lending banking and commercial banking.

Policy-lending is different from other financial function. The sources of the funds are not from taxes. Nor are the funds unpaid appropriation. Policy-lending is a banking business. Policy-lending financial institutions must raise their funds in the form of debts such as issuing bonds. Therefore, the banks often use the funds to make money in the form of loans. Naturally, loans must be repaid. Policy-lending financial institutions must follow the macroeconomic policy of the state concerning the amount of loans, outlets for investments and time frame for the loans; take into consideration the peculiar characteristics of the fund-using units; and give them preferential treatments in terms of interest rate. However, loans are debts after all. It is necessary to guarantee the return of capital plus a small amount of profit. This is precisely the basic difference between policy-lending and financial appropriations.

China's specialized banks are doing policy-lending businesses over a protracted period. They do policy-lending as well as commercial businesses. Therefore, there are many drawbacks such as problems in agricultural development, IOU problems in the purchase of farm products, problems in investments for major state construction projects, problems of technical transformation for large- and medium-sized enterprises, and problems of credit and loans for the import and export of large-sized production equipment. All such problems cannot be easily solved. However, some of the regular commercial businesses have been neglected due to this kind of chaotic situation in management. This has also prevented China's specialized banks from starting to reform themselves. Several years ago, some theoreticians and the central bank had the idea of reforming specialized banks by separating policy-lending banking from commercial banking in terms of accounting, but there were great deal of difficulties when such reform measure was put into practice. The "Decision of the CPC Central Committee on Some Issues Concerning Establishment of a Socialist Market Economic Structure" pointed out: "We should establish policy-lending banks, and should separate policy-lending banking from commercial banking. We should organize the National Development Bank and the Agricultural Bank of China, all of them handling strictly defined policy-related business." A department concerned reveals that in the next round of financial reform, the state will establish three policy-lending banks to specialize in handling policy-related financing.

To separate policy-lending banking from commercial banking will be conducive to reforming the investment system. The new National Development Bank will be a



policy-lending bank aimed at financing the major construction projects of the state. It will manage the funds it has raised in a centralized manner to ensure the completion of the major construction projects in the state plan. It will evaluate the projects and determine the lending priorities; keep spending within the limits of its own resources; and supervise and control the utilization of its funds. By doing so, it will be able to not only meet the requirements in the development of all major construction projects and make the best use of the loans for the development of capital construction projects, but also change the situation whereby sources of construction funds are unreliable; no one assumes the responsibility for investment risks; or the total amount of investments is entirely out of control.

By establishing policy-lending banks, we will be able to provide financing in support and in favor of agriculture. One of the functions of the Agricultural Bank of China, which will be in charge of policy-lending business after its reform, is to issue policy-related loans for the storage of grain crops, cotton and edible oil for the state and for the purchase of farm and sideline products on a contractual basis. This means that all the policy-related businesses in support of agriculture which are now being handled by several specialized banks will be managed by a single policy-lending bank. This will be conducive to efficiently using the credit and funds for agriculture, and helping retrieve agricultural loans and implement the state policy of supporting agriculture.

The major task of the new Import and Export Credit Bank is to provide credit and funds for the buyers and sellers in importing or exporting complete sets of large-sized equipment and provide credit discount and guarantee for the Bank of China in exporting complete sets of machinery and electronic products.

The separation of the policy-lending business from the commercial business is conducive to turning state specialized banks into modern commercial banks. For many years, the state-owned specialized banks have been unable to act according to the business principle in tapping fund resources, in making full use of their funds, in determining interest rates and doing accounting work, since they handle both policy-lending and commercial financing businesses. They cannot operate like a modern commercial bank. Meanwhile, various banks handle different volume of policy-related business. It will be difficult to objectively evaluate each bank's performance in extending loans and create conditions for all banks to compete with one other on an equal basis. After the complete separation of policy-lending financing from commercial financing, no one is able to "eat from the same big pot" of policy-lending business. Nor can anyone use policy-lending business as an excuse to cover up poor performances in management. Naturally, policy-lending banks should assume their own risks, manage their businesses with their capital safeguarded, and refrain from competing with commercial banks.

The current situation shows that the separation of policy-lending banking from commercial banking will be faced with a great deal of difficulties in forming the correct ideology, bringing about structural changes, hiring personnel, clearing up accounts, handing business accounting, and transferring financial claims and liabilities. There will be a period of transition in actual operation. However, we have to march toward this direction sooner or later. Without this separation, it will be hard to establish a new financial system. We believe that following the separation of China's policy-lending banking from commercial banking and the progress in other aspects in the financial system reform, there will be a new leap forward in China's banking business.

### Specialized Banks as Commercial Banks

94CE0236C Beijing JINRONG SHIBAO in Chinese 18 Dec 93 p 1

[Article by JINRONG SHIBAO reporter Zhang Xinfang: "Manage Specialized Banks as Genuine Commercial Banks"—Commentary Series No 3 on Deepening Financial Reform]

[Text] With the vigorous development of the socialist market economy, banking plays an even more important role in the national economy, and the reform of the financial system has already become a pressing task. Another important task in deepening the reform of China's financial system reform is to separate policy-lending banking from commercial banking and turn state-owned specialized banks into genuine commercial banks. This is an important part of comrade Deng Xiaoping's instruction that "efforts must be made to manage banks as genuine banks" and the key to deepening the financial system reform.

The financial organizational system preliminarily set up during the 14 year period of reform and opening up doubtlessly represents a remarkable progress as compared with the banks in the past which only hired "tellers" and "accountants." This system is under the leadership of the People's Bank of China and mainly composed of state-owned specialized banks with various other economic sectors working side by side and coordinating with one another through a division of work. However, for many years, China's state-owned specialized banks have, on the one hand, performed the functions as commercial banks, while on the other hand, they have not developed the mechanism of modern commercial banks in managing their own affairs, assuming their own risks, restraining themselves and assuming the responsibility for their own profits and losses. This has prevented the entire banking system in China from meeting the requirements in developing a socialist market economy. The functions and scope of operation of the four specialized banks which are regarded as the major forces of the financial circle have not been clearly defined. Due to the fact that the functions of the government are not separated from those of enterprises, the bank's business operation has been interfered by the

local authorities. As a result, the credit operations of the national bank are provincialized and funds divided into pieces. There is no guarantee for the supply of funds in developing the major construction projects of the state. Moreover, the profit-oriented specialized banks have plans to expand their credits, but they lack the mechanism to avoid risks. Thus, there are increasing number of bad debts and overdue bills, and their credit rating is notably lowered. Bad debts in some specialized banks make up as much as 30 percent of their total assets. The shortcomings and problems which have cropped up show that it is of great urgency to manage state-owned specialized banks as commercial banks and establish a good system of modern commercial banks in order to meet the requirements in the development of socialist market economy. This is because that with the vigorous development of the reform and opening up program, tremendous changes have taken up in the environment under which the banks operate. The banks' funds have gradually become market-oriented, and the banks have been asked to use their funds as a commodity in running their businesses. Industrial and commercial enterprises have become legal persons of self-management. Banks have been asked to run as enterprises instead of administrative organs and cooperate with each other on an equal basis. After the barriers between different departments and regions are removed, credit funds are continuously increasing on the market. Banks at home and abroad are expanding their cooperation. All this demands that banks in China link with international commercial banks in business operations and change their system of only supplying credit funds to a system of business operation.

Efforts must be made to transform the specialized banks into genuine state-owned commercial banks, which mainly handle deposits from and loans to industrial and commercial enterprises and regard profits as their main target in doing business. Organizationally they will be national commercial banks, each with a head office and many branches. In dealing with outsiders, they are independent legal persons under centralized business management. After the modern commercial banks start to operate, it is necessary to follow the principle of managing their own affairs, assuming their own risks, bearing the responsibility for their own profits and losses and restraining themselves. It is essential to view the commercial banks in the country as a whole, centralize their management and unify the procedure of fund management. In business operation, modern commercial banks must uphold the principle of combining profitability, fluidity and safety. Since they mainly use money deposited in the banks in extending loans, their risks are higher than ordinary industrial and commercial enterprises. Meanwhile, they are not obliged to do policy-oriented financing and "subsidize" those enterprises which are suffering losses, they can justly pay full attention to profits from now on. Modern commercial banks should also independently make their own decisions on investments, break away from the administrative interferences from the governments at all levels, and strive to

reap maximum profits with minimum risks. Efforts must be made to strengthen supervision and control over the risks taken by state-owned commercial banks. As the owner of state-owned commercial banks, the state must supervise, through the board of supervisors, their management and how they preserve and increase the value of state assets. Nevertheless, the state should not interfere with the banks' routine business activities.

The most basic characteristics of state-owned commercial banks is their need to manage their own affairs, bear the responsibility for their own profits and losses, assume their own risks and restrain themselves. They must implement the various guidelines and policies of the party and the state. Under no circumstances should they regard making investments in stocks and shares, and buying securities and real estate at lower prices and selling them out at higher prices a part of their regular operation. According to international practice, various countries have set limits on the scope of business operation for the commercial banks. Even many countries with fairly developed market economy explicitly forbid commercial banks to make investments in industries and illegally buying and selling securities. Therefore state-owned commercial banks should be forbidden to make direct investments in nonbanking enterprises.

After the reform of the financial system, China's system of commercial banks should include state-owned commercial banks, the Bank of Communications and other national and regional commercial banks and rural and urban cooperative banks.

Specialized banks must go through a process to become state-owned commercial banks. It depends on the external environment, particularly the gradual establishment of the system of modern enterprises. It also depends on the internal management mechanism such as the principle of operation and the system and methods for internal management. All these must be standardized and improved in accordance with the general principle governing the commercial banks and the Banking Law. Efforts must be made in a down-to-earth manner to study and explore how to carry out reform in this respect.

After reforming themselves, state-owned commercial banks will become the mainstay of the new financial organizational system. They will be able to do a better job in providing financial services of all types, to keep pace with the developing socialist market economy and to help promote the national economy continuously, swiftly and healthily.

#### **Establish Good Financial Market System**

94CE0236D Beijing JINRONG SHIBAO in Chinese  
20 Dec 94 p 1

[Article by Yang Shuang: "Establish Good Financial Market System"—Commentary Series No 4 on Deepening Financial Reform]

[Text] The financial market is an important component part of modern market economy. There must be a well-developed financial market in a flourishing market economy. The 14th National CPC Congress explicitly pointed out that the goal of the economic system reform is to establish a socialist market economic system. Therefore, to establish a financial market that satisfies the needs of the socialist market economy is something basic and important in reforming China's financial system.

The financial market is divided into the money market (short-term financial market), capital market (long-term financial market), stock market, foreign exchange market and gold market. China resumed the issuance of treasury bonds in 1984, and Shanghai issued the first batch of stocks in 1984. The financial market began to develop since 1986, but it is still in the preliminary stage and there are plenty of rooms for further development. China's future financial market should be a unified and open market with orderly competition and strict management. It has the general features of today's world financial market as well as China's special characteristics. It is well adapted to the current situation in economic and social development in China. In this unified and open financial market, funds which are regarded as a commodity in business transactions are able to circulate freely throughout the country so that limited social resources are allocated in various localities. If the financial market is cut into pieces, it will be difficult to circulate funds and put them to effective use. This will be a tremendous loss to China where funds are badly needed. In the past, China's financial market is not unified and open due to various reasons, and people in the financial circles were often restricted to carry out their activities in a designated area. In dealing with this situation, we must further carry out reform to develop a unified, open market. If it is said that a unified, open financial market is the basic prerequisite for the effective circulation of funds, building an orderly and competitive market is the basic way for the effective circulation of funds. Competition instills vitality into the financial market. If there is no competition, or competition is not allowed, it will be difficult to make the financial market prosperous and avoid market monopoly by a few financial institutions. Meanwhile, this kind of competition must be orderly and it should be carried out in accordance with certain rules and regulations. The "illegal day-to-day loans" and certain types of chaotic phenomena noticed on the stock market not long ago were precisely signs of disorderly competition. This kind of disorderly, malignant, and abnormal competition will disturb the market and harm the legitimate interests of the people and enterprises in the society. It would even endanger the regular operation of social economy. Therefore, it is necessary to establish a good legal system for China's financial market and exercise strict supervision and control over the market. We must adopt resolute measures and firmly curb these illegal activities. We must also use our policy to guide those who participate in various activities on the market to ensure that market competition remains unified, open and orderly.

There is no doubt that a flourishing financial market plays an important role in helping develop a modern economy and the enterprises. However, the growth of China's financial market is far from being strong in despite of the fact that for the past 14 years since the beginning of the reform program, such market in China has started from scratch and begun to take shape. Due to the fact that it was born at the time when the new system was replacing the old, it still remains in the preliminary stage, and many sectors of the market are still not operating smoothly. Therefore, to quicken the pace in building the financial market and strengthen market management has become an important theme in reforming the financial system.

To achieve this goal, it is, first of all, necessary to improve the money market. As a short-term financial market, the money market plays a significant role in helping the central bank exercise its macroeconomic control and the monetary institutions utilize the time of turn-around of the funds, in financing lateral financial institutions and making the best use of available funds. 1) It is necessary to strengthen the control of the money market, and set standards for the major participants of the market and their behavior. 2) It is essential to cut the direct link between the money market and the capital market, and stop funds from flowing from the money market to the capital market. Otherwise, there will be boundless increases of investments in fixed assets, causing economic overheating and serious inflation. 3) On the basis of different requirements in regulating money supply and adjusting supply and demand, it is imperative to set standards for the overnight loan market and the short-term financing market. 4) It is necessary to gradually develop an open business operation of the central bank and turn the money market into a tool of the central bank for implementing the monetary policy and into the main arena for regulating the basic currency and the money supply.

Second, the stock market is the principal form of the capital market. Many problems have cropped in China's stock market during the three years since the opening of the stock exchanges in Shanghai and Shenzhen. Thus, we must vigorously develop this market and make further improvements. Efforts must be made to further improve the market for treasury and financial bonds. From the point of view of credit and money, all activities concerning credit invariably affect the money supply. Therefore, we must make use of the large number of geographically widespread financial institutions to help selling government bonds. This is not only conducive to the issuance and circulation of government bonds. It also helps enhance credit worthiness of the government bonds and create conditions for the central bank to regulate the money supply. In addition, the stock market should also be further standardized. We must do a good job in transforming the enterprise share-holding system, set up a standard procedure for issuing and listing stock on the market, and strengthen control over stock exchanges and the stock exchange system. Currently, the



market for corporate stocks and that for personal stocks are separated, while the market for Type-A stocks and that for Type-B stocks are not in line with each other. We must energetically create conditions and gradually form a unified and standard stock market.

Third, we must further develop and form a standard foreign exchange market. Measures have been taken to reform the system for the control of China's foreign exchange. After the implementation of the method of allowing units to retain a part of foreign exchange they have earned for their own use, a number of foreign exchange swap markets have taken shape. Nevertheless, there is still a part of foreign exchange which goes to units that use the foreign exchange through administrative channels instead of the swap market. Meanwhile, a dual-track or multi-track system is being implemented in determining the foreign exchange rate. Therefore, it is necessary to set a single foreign exchange rate; develop a mechanism to form a unified exchange rate and turn monetary institutions into the mainstay for the foreign exchange market; and finally, form a completely unified foreign exchange market to run the financial market in an orderly manner.

## INDUSTRY

### Light Industrial Output Value by Area Dec 1993

HK2401113694 Beijing CEI Database in English  
24 Jan 94

[Text] Beijing (CEIS)—Following is a list of the light industrial output value by area in China in December 1993, released by the State Statistical Bureau:

Area	12/93	12/92	(Unit: 100 million yuan) change over 1-12/92(pc)
Total	1833.83	1390.81	31.9
Beijing	34.51	28.64	20.5
Tianjin	32.99	27.18	21.4
Hebei	52.04	44.94	15.8
Shanxi	14.25	12.87	10.7
Inner Mongolia	17.90	14.69	21.9
Liaoning	55.08	42.26	30.3
Jilin	22.13	20.59	7.5
Heilongjiang	29.32	28.16	4.1
Shanghai	99.62	86.34	15.4
Jiangsu	292.43	235.60	24.1
Zhejiang	177.63	120.45	47.5
Anhui	52.34	37.60	39.2
Fujian	60.85	46.69	30.3
Jiangxi	29.95	21.38	40.1

Shandong	196.12	115.51	69.8
Henan	68.50	50.65	35.2
Hubei	64.54	51.63	25.0
Hunan	41.59	32.45	27.9
Guangdong	281.81	202.85	38.9
Guangxi	38.60	30.74	25.6
Hainan	7.57	6.08	24.5
Sichuan	82.70	64.99	27.3
Guizhou	9.63	8.42	14.4
Yunnan	16.68	10.95	52.3
Tibet	0.08		
Shaanxi	21.92	18.46	18.7
Gansu	8.86	8.23	7.7
Qinghai	1.97	2.09	-5.7
Ningxia	2.19	2.18	0.5
Xinjiang	20.13	18.11	11.2

### Industrial Output Value by Area Dec 1993

HK2401113394 Beijing CEI Database in English  
24 Jan 94

[Text] Beijing (CEIS)—Following is a list showing the industrial output value by area in China in December 1993 released by the State Statistical Bureau:

Area	12/93	12/92	(Unit: 100 million yuan) Change Over 12/92 (pc)
National Total	3664.35	2823.80	29.8
Beijing	94.12	78.42	20.0
Tianjin	73.82	60.23	22.4
Hebei	128.64	106.93	20.3
Shanxi	64.70	54.64	18.4
Inner Mongolia	44.29	39.16	13.1
Liaoning	192.13	154.72	24.2
Jilin	65.38	56.53	15.7
Heilongjiang	89.72	84.52	6.2
Shanghai	205.35	181.03	13.4
Jiangsu	540.22	424.08	27.4
Zhejiang	268.09	185.65	44.4
Anhui	96.17	71.55	34.4
Fujian	95.84	72.47	32.2
Jiangxi	62.03	45.70	35.7
Shandong	353.45	222.38	58.9
Henan	137.59	106.51	29.2
Hubei	137.02	112.77	21.5
Hunan	99.27	75.89	30.8

Guangdong	425.04	302.36	40.6
Guangxi	69.64	50.56	37.7
Hainan	10.13	8.38	20.9
Sichuan	200.38	153.77	30.3
Guizhou	28.25	24.67	14.5
Yunnan	40.28	29.03	38.8
Tibet	0.27		3.8
Shaanxi	57.88	46.52	24.4
Gansu	34.01	30.22	12.5
Qinghai	7.07	5.95	18.8
Ningxia	8.41	7.59	10.8
Xinjiang	35.16	31.21	12.7

Note: Industrial output value in 1992 is measured in 1990s constant yuan.

### Machine Industry 'Problems' With Joint Ventures 94CE0281B Beijing JIDIAN RIBAO in Chinese 18 Dec 93 p 3

[Article by Wang Xiyan: "The Machinery Industry's Problems in Developing Foreign-Funded Enterprises"]

[Excerpt] [passage omitted] Many problems have emerged in the process of developing foreign-funded enterprises in the machinery industry, and those problems are harming the healthy development of the utilization of foreign capital in the machinery industry, and warrant a high degree of attention.

#### Most Projects Are Small in Scale and Low in Standards

The average agreed amount of foreign investment for foreign-funded enterprises in the machinery industry is only \$1.03 million. The amount of funds actually invested is even more pitifully small. In the Jiangsu and Anhui region, most foreign investment consists of funds invested by Hong Kong and Taiwan businesses and processing projects for Japanese businesses. In terms of technology, there has been no qualitative improvement in enterprises' products. This shows that in terms of the average amount of investment for the projects, China's machinery industry's utilization of foreign capital is characterized by small scale and low standards, and that it is necessary to develop joint ventures and cooperation with internationally renowned large transnational conglomerates, thereby raising standards and achieving upgrades.

#### Projects Are Not Properly Distributed

Basic parts and basic machinery are the weak links of the machinery industry, and the improvement of the overall standards of the machinery industry depends on the rapid development of basic parts and basic machinery. However the basic parts sector has utilized only \$200 million in foreign direct investment, accounting for 4 percent; the average amount of foreign capital involved for the projects is only \$630,000. Basic machinery

mainly refers to machine tools. The machine tool sector has utilized only less than \$300 million in foreign direct investment, accounting for 6 percent; the average amount utilized for the projects is only \$650,000. In the two basic sectors, the scale of utilization of foreign capital and the average amount of foreign capital utilized for the projects are both small, and the technological content of products is low; the two basic sectors are far from meeting the demands of the overall development of the machinery industry. Therefore it is necessary to accelerate the development of the two sectors.

#### The Problem of Increasing Pressure at Every Level and Pursuing Quantity in a One-Sided Manner Is Serious

The purpose of developing foreign-funded enterprises is to make up for the insufficiency of domestically gathered funds, accelerate the optimization of economic structure, accelerate resource development, and promote technological progress. Nevertheless, some localities seek to increase the number of foreign-funded enterprises in a one-sided manner, increasing pressure at every level; they have made the quantity of foreign capital utilized an item of performance evaluation. As a result, in whatever areas foreign businesses have shown interest, there will be negotiations on those areas, and projects in those areas will be carried out accordingly. Joint ventures are established in a blind manner. "Whatever is put into the basket is considered vegetable." There is no bargaining with cooperation partners, neither is there any strategy or blueprint. Also, there is a lack of macro-level guidance.

#### Pre-project Decision Making Is Ineffective

Currently, when making preproject decisions on foreign-funded enterprises, many localities have failed to form strong teams to conduct investigation, study, surveying, and supporting analysis, and have instead operated in a perfunctory manner, grabbing everything available indiscriminately. The main manifestations include: 1) A failure to select cooperation partners carefully; 2) a failure to conduct extensive market investigations and a tendency to join the action in a hurry, resulting in redundant projects; 3) a failure to acquire adequate information about foreign businesses' credit status, resulting in being defrauded in some cases; and 4) a failure to conduct self-evaluation and consider future development in an adequate manner. A factory in Wuxi signed the contract on a joint venture project with a U.S. company before the assets of the Chinese partner had been evaluated. According to later evaluations, the assets were worth more than estimated in the contract; asset disputes thus ensued, casting a shadow over the development of the joint venture. The joint-venture contract on a joint-venture project between a factory in Anhui and ABB Corporation was signed when agreements on technological transfers and on plant, equipment, and land leasing had not been entirely worked out; in addition the contract provided that the technological-transfer percentage-retention payment should amount to 3 percent of net sales. Without an agreement on technological

transfers, how could there be any technological-transfer percentage-retention payment? Is all this not very strange?

#### **There Is No Guarantee of Supporting Funds**

In developing joint ventures, the Chinese partners depend almost entirely on loans for funds. Since the middle of last year, supporting funds have been in short supply. As a result agreements on some new projects on which negotiation has been completed cannot be signed according to schedule; projects on which agreements have been signed cannot start to be constructed or be put into production operation according to schedule; and the projects which have been put into operation cannot function normally. Consequently, foreign businesses' confidence in project success has been lowered, and the rate of delivery of agreed investment funds has declined.

#### **Internal, External Management of Foreign-Funded Enterprises Is Not Strict**

1. The property rights of Chinese partners do not have actual effects, and the responsibility for state assets is not clearly located. As the present period is a changing and transition period, the rights of local machinery-industry management agencies as representatives of state assets are not clearly defined. After becoming joint ventures, most enterprises' boards of directors contain no officials from government agencies. The supervisory agencies' management of enterprises is carried out mainly through the boards of directors, but most directors representing the Chinese partners work as employees in the joint ventures, and are thus unable to represent the interest of the Chinese partners in a satisfactory manner.

2. Foreign partners often take advantage of Chinese partners' weaknesses, such as being unfamiliar with the international market situation and lacking purchasing and marketing channels, by manipulating prices and fee standards, appropriating enterprise profits, and evading taxes, thereby harming the interests of the country.

3. The system of external management of foreign-funded enterprises is not yet characterized by an organic structure, and management work is weak.

#### **Quantity, Quality of Trained Personnel Cannot Meet Demands of Development**

1. There is a lack of personnel competent for externally oriented economic activities. There are often no suitable people who can negotiate with foreign parties. Consequently it has been necessary to cope with the matter by using some people who are doing other work. Those people do not understand negotiating procedures, negotiation techniques, or international practices. Whatever the foreign parties say is accepted. All this has created a very difficult situation.

2. The people who participate in the management of joint ventures on the Chinese side are relatively low in quality and strong in self interest, and do not act in the

interests of the country, resulting in damages to the interest of the country. For instance, a joint-venture company in Suzhou has five directors, three of whom represent the Chinese partner; but one Chinese director is siding with the foreign partner. As a result, control over the joint-venture company has fallen into foreign hands when the Chinese partner has a majority of the shares. Secondly, the professional competence is also low. Chinese partners' representatives play no effective role in the management of joint ventures. Chinese managers of some joint ventures lack knowledge about foreign languages, computers, and the accounting system, do not grasp the actual business situation of the joint ventures, and are thus unable to participate in management.

3. As the standards of some Chinese technical personnel in joint ventures are low, the process of nationalizing production has been slow, and it has been difficult to achieve a foreign exchange balance.

#### **Information Channels Do Not Function Well**

China does not yet have a complete information system providing enterprises with information about foreign capital. This fact has produced large adverse effects on developing foreign-funded enterprises. First, Chinese enterprises do not have detailed information about large companies in their respective industries around the world. If they want to form joint ventures, they cannot take the initiative in seeking joint venture partners, but can only negotiate with those who have come, resulting in a large degree of blindness and a low success rate. Second, as they do not know the situation of prices and purchasing channels for the equipments needed by the joint ventures on the international market, they cannot but let foreign partners make profits and harm Chinese interests by raising prices at will. Third, Chinese partners do not control channels of purchasing raw materials and parts needed by the joint ventures or channels of marketing joint venture products on the international market. As a consequence, foreign partners can import things at high prices and export things at low prices, thereby making huge profits in the circulation stage. At the same time the joint ventures would be suffering losses in terms of what the books show; thus the Chinese partners will receive no dividends and the state can collect no taxes.

#### **Chemical Industry Restructuring Reported**

94CE0281A Beijing JINGJI CANKAO BAO in Chinese  
24 Dec 93 p 1

[Article by reporter Ding Genxi: "Ministry of Chemical Industry Changes Functions, Focuses on Macro Regulation and Control, Does a Good Job of Providing Services for Both Ends"]

[Excerpt] [passage omitted] In accordance with the decision made by the first session of the 8th National People's Congress, the CPC group at the former Ministry



of Chemical Industry reformed the bureaucratic structure of the former Ministry of Chemical Industry in a comprehensive manner. This reform has now been basically completed; in terms of the ministerial-level bureaucracy, the numbers of department- and bureau-level units and division-level units have been reduced from 15 and over 90 to 12 and over 60 respectively, and the number of functionaries has been reduced from 577 to 320. Those office workers and department, bureau, and division-level cadres rendered surplus have all been placed. The new Ministry of Chemical Industry has begun to function in accordance with the new functional requirements.

The former Ministry of Chemical Industry managed over 6,000 chemical enterprises and institutions at the county level or above in the chemical industry system. The ministry was not only responsible for approving chemical projects and allocating materials and funds, but also responsible for making production plans of enterprises; even plans and arrangements concerning enterprises' equipment overhauls were made by the ministry. The scope of management was excessive, and management was carried out in an overly detailed manner. The new Ministry of Chemical Industry will not only manage the previous chemical sector, but also manage, in a comprehensive manner, the chemical industry which consists of different sectors such as the petrochemical, coal chemical, salt chemical, and refined product chemical sectors and enterprises of different ownership statuses such as foreign-funded chemical enterprises and township chemical enterprises. Even since its establishment, it has broken away from the traditional views and practices characterized by intervention in enterprises' production and business activities, and has instead concentrated on macro-level management. For instance, the chemical industry production planning conference, recently gathered by the Ministry of Chemical Industry, was mainly devoted to analyzing the situation of the chemicals market next year, inviting the comrades in charge of the relevant ministries and commissions to discuss what chemical materials provided by the chemical industry their respective sectors would need and how much of each material they would need, and then making macrolevel production plans for the next year on the basis of market demand. The practice, prevalent at the previous years' production planning conferences, of haggling over plan targets with directors of chemical industry departments or bureaus of the localities, resulting in the Ministry of Chemical Industry being eventually forced to impose plans on its subordinates, was changed. According to a source, this year's plan, made by the Ministry of Chemical Industry in view of market demand and the actual situation of enterprises, was based on the superior's working in concert with its subordinates and was deeply welcomed by the localities and various quarters. Leading comrades of many localities said that this change on the part of the Ministry of Chemical Industry was not only conducive to making production in line with demand, but also conducive to adjusting the product structure of the chemical industry

and improving economic efficiency, and that thus the change had won profound support from the people and enterprises.

In the process of transforming the function of government, the Ministry of Chemical Industry has given particular emphasis to providing services for the "two ends," providing services both for the localities and enterprises and for foreign businesses. Since its establishment, the new Ministry of Chemical Industry has dispatched investigation groups to conduct investigation at the grass roots on many occasions, and has also held symposiums of various kinds so as to hear enterprises' appeals and demands and to keep enterprises informed, thereby helping enterprises resolve a series of practical problems in development. With the rapid development of our national economy, some large chemical enterprises abroad have been shifting their attention to China in terms of their investment plans. In view of this development, the Ministry of Chemical Industry informed enterprises of the said situation in a timely manner, and informed foreign businesses of the state of development of chemical industry across China, thereby making the two sides very happy. Since the beginning of this year, the Ministry of Chemical Industry has signed comprehensive cooperation agreements with 12 large chemical companies such as Japan's Asahi Chemical Industries, Eastman Chemical Company of the United States, and Germany's Bayer AG and the Economics Ministry of the Netherlands, and has signed project cooperation agreements with General Electric of the United States and Germany's BASF AG, involving 122 projects of exploratory activity and cooperation. Recently, the ministry also signed agreements with the Mexican Government on economic and technological cooperation on petrochemical and chemical industries. The Ministry of Chemical Industry has so far signed joint-venture contracts worth a total of \$230 million and joint-venture intention agreements involving a total of \$800 million with foreign businesses.

## SMALL-SCALE ENTERPRISES

### Zhejiang Individual, Private Enterprises 'Increase'

94CE0303H Beijing JINGJI RIBAO in Chinese  
30 Jan 94 p 6

[Summary] By the end of 1993, the number of individual businesses in Zhejiang Province totaled 1,238,000, a 10 percent increase over 1992; paid 2.23 billion yuan in taxes, a 39.5 percent increase, and accounted for over 14 percent of provincial revenue. In 1993, 566 new private enterprises had investment exceeding 1 million yuan. Private enterprises accounted for 7.7 percent of the gross value of industrial output in Zhejiang, and 39.5 percent of retail sales. In 1993 the value of exports by individual and private enterprises exceeded 500 million yuan. The number of private enterprise joint ventures increased from 40 in 1992 to 179.

### Impact of GATT on Rural Enterprises

94CE0261B Beijing GONGREN RIBAO in Chinese  
10 Jan 94 p 5

[Article by Ru Feng (1172 6912): "In the Advent of the Tide of Reentry Into GATT, Township Enterprises Must Be Tide Riders"]

[Text] The recent successful conclusion of the Uruguay Round of talks has added to the urgency of China's reentry into the GATT.

As a full participant in the Uruguay Round, China must restore its status as a GATT contracting party as soon as possible so as to sign the final act of the Uruguay Round and perform the obligations specified in the act. On the one hand, the successful conclusion of the Uruguay Round has provided a more open external environment for us to further export-oriented economic development. On the other hand, a more open market means keener competition—a new challenge to the makeup and quality of our exports.

Town and township enterprises are the main subject of this challenge. Generally speaking, township enterprises are faced with the following internal and external problems: First, we have a large number of township enterprises, but their operations are small-scale. Now, there are more than 10 million township enterprises, employing 110 million people. On average, each enterprise has less than 10 employees, and cannot take advantage of large-scale operations. There are only a few dozen enterprise groups. This makes macro-management and guidance a very difficult task. Second, township enterprises lack technical personnel, and their technology and equipment are backward. Most staff members and workers of township enterprises come from the countryside. Their education and training cannot meet the needs of industrialized production. Most of their equipment is backward, and most needs to be replaced. Third, products are not technology-intensive. Most of them are common, low-grade products, which cannot compete with imported goods. Fourth, the products are of poor quality. Many products are manufactured in a careless way, and some are fake or shoddy products. How can such products compete with their foreign counterparts? Fifth, this year the world economy will move out of difficulty and enter a steady-growth stage. Competition in the international market will be keen. In particular, our neighboring areas, such as Southeast Asia, are regions in the world noted for their relatively fast economic growth. Their economic growth rate is expected to surpass the European and U.S. countries by 4 percentage points. The "threat" of competition from these regions will be severe. Six, China can no longer rely on such methods as high tariffs to protect domestic products.

After our "re-entry into GATT," our products will be directly subject to the impact of international market prices and world economic situations. The GATT's primary function is to set the international trade behavior of its contracting parties, and the contracting

parties must implement a market economic system and enforce unified trade and tariff rules as required. How will township enterprises meet this challenge? This is a serious question before us.

The correct answer is: They should create brand-name products to welcome "re-entry into GATT." When the tide of "re-entry into GATT" comes, they should be "tide riders"!

1. They should launch a vigorous publicity and education campaign aimed at fostering and strengthening the determination to improve product quality. It is imperative to increase the leaders' and employees' sense of urgency, crisis, and responsibility. They should foster the intention of "improving their product quality with the ultimate goal of revitalizing the country" and reinforce their concept that "quality is the lifeblood of township enterprises."

2. They should use the strategy of creating brand-name products to increase the popularity and competitiveness of their products both at home and abroad. Authorities at all levels in charge of township enterprises should formulate a "brand-name products" strategy and put it into practice step by step. The state should establish a policy to give preferential treatment to quality products turned out by township enterprises.

3. They should painstakingly "improve themselves." They should go all out to conduct technical transformation, readjust the product mix, understand high technology, and develop high-tech products.

4. They should catch up with the tide of nationwide economic reform this year. Positive efforts should be exerted to implement and perfect the cooperative shareholding system, promote various kinds of lateral economic and technological alliances and cooperation, and encourage the formation of superior industries, manufacturers of brand-name products, or backbone enterprises based on the principle of voluntary participation. Small and mini enterprises and those operating at a deficit should be merged, leased out, or sold by auction. Township enterprises should transform their operational mechanism in line with the modern international enterprise system with a view to approaching the standard of regular modernized enterprises in the world.

### Analysis of Shanghai Rural Enterprises

94CE0261A Beijing JINGJI RIBAO in Chinese  
7 Jan 94 p 2

[Article by reporter Lu Jinong (7120 4949 6593): "The Reinforcements' Have Reserve Strength. Analysis of New Township Enterprises in Shanghai"]

[Excerpt] [passage omitted] According to statistics for the period from January to October 1993, Shanghai's township enterprises registered a total industrial output value of 56.174 billion yuan, a 46.35 percent increase over the same period in 1992, and accounted for 20.87

percent of the municipality's gross industrial output. During this period, township industries grew at a rate faster than the industrial growth of the entire municipality by nearly 27 percentage points. If township industries continue to grow at this rate, in about two years, its production is expected to reach one-third of the total industrial output value in Shanghai, a city where big state-owned industries are concentrated.

Since last year, a remarkable feature of Shanghai's new township enterprises is that there are more joint ventures. In 1992, Shanghai township enterprises established 1,100 new joint ventures. The number of such enterprises that appeared between January and October 1993 surpassed the 1992 record, bringing the total number of joint ventures in suburban Shanghai to upwards of 3,000, or 47 percent of the foreign-funded enterprises in the municipality. That is, in terms of number, they took up almost "one half of the world of foreign-funded industry." Now, Shanghai's townships, and even some villages, are focusing on the promotion of joint ventures as a way to make breakthroughs in developing their economies. Yutang Village in suburban Shanghai had had no foreign-funded enterprise before May 1992. In August 1993, only a little more than one year had elapsed—the village had eight enterprises with foreign investment. The total investment of these enterprises was \$39.22 million, of which \$29.18 million came from foreign investors. Now, most of them have begun production. In developing suburban enterprises with foreign investment, Shanghai has kept to "three principal methods": setting up joint ventures, transforming old enterprises by "grafting" new foreign-funded ventures on them, and developing new and high technology. Setting up joint ventures, and using foreign capital has solved township enterprises' acute shortage of funds. The "grafting" method has improved old enterprises and upgraded their products, and as a result, some loss-making enterprises have regained vitality and are making profits. By introducing advanced foreign technology and developing new products, township enterprises are able to gear their production to the international as well as domestic market instead of the domestic market alone. Statistics show that the value of exports by Shanghai's township enterprises was 11.934 billion yuan between January and October 1993. Of this, exports of joint ventures amounted to 3.239 billion yuan, up 118 percent compared with the same period in 1992. Foreign-funded enterprises have become a reinforcement force in Shanghai's suburbs in earning foreign exchange.

Starting points, large-scale operations, and high efficiency are other features of the new township enterprises that have emerged in Shanghai's suburbs. Many of the township enterprises established in the last two years are characterized by their large-scale investments, high product quality, advanced technology, and bright market prospects. Meanwhile, some new township enterprises are developing toward enterprise groups. The Jiabao Industrial Corporation, which was originally formed by four township enterprises, now has seven sub-companies, and its operations have been expanded to

include real estate, domestic and international trade, as well as hotel business. Its assets have soared from 63 million yuan to 690 million yuan. Both its output value and profits have increased sharply, and export foreign exchange earnings have doubled year after year. Now, this corporation is one of the top 10 large-scale township enterprises in China.

Compared with old enterprises, Shanghai's new township enterprises are in a better condition, have more remarkable strong points, and more shining prospects for further development. But they are not completely without problems. Some major problems in their operations are: First, shortage of funds is still a rather striking problem. Due to an acute shortage of funds, some projects have been started, but cannot be completed and put into operation on time. A few foreign-funded enterprises exist in name only because their foreign capital has not been paid. Others are not running at full capacity due to insufficient revolving funds. Second, they lack professionals. To enter the overseas market, and hook up their operations with the international business community, township enterprises are in need of specially trained personnel in such fields as international trade, foreign languages, financial management, and accounting. For this reason, some enterprises have expressed the hope that the authorities concerned will make arrangements for training such professionals and will cooperate with institutions of higher learning in this regard to improve the quality of training. Third, there is insufficient labor. As most young and middle-aged laborers in Shanghai's rural areas are employed by either township enterprises or village-run enterprises, it is difficult for new enterprises to recruit workers. Some of the new township enterprises have to hire workers from other parts of the country. In some enterprises, child laborers hired from other places account for 80 percent of the labor force. This has brought about a series of new questions such as the workers' board and lodging, love and marriage, and even some public security problems. Fourth, with the development of the export-oriented economy, more and more township enterprise products are for export, and such products take up an increasing share of the township industry's total output. These township enterprises earnestly wish to do export business themselves. Right now, however, very few of them have obtained approval in this respect. For newly established enterprises, it is even harder to get such approval.

The large number of new township enterprises in Shanghai have unique strong points, but the challenges confronting them are grim.

## AGRICULTURE

### Jilin Sets Grain Procurement Policy

94CE0205a Changchun JILIN RIBAO in Chinese  
16 Nov 93 p 1

[Report on November 13, by Huang Chunjia (7806 2504 0163) and Reporters Chen Taixiang (7115 3141 4382)]



and Zhang Lijun (1728 0500 6511): "Increasing Quota Procurement Price and Set Protective Price for Market Transactions—The Jilin Provincial Government Set Grain Procurement Policy for Fall, Demanding Strict Compliance of Contract and Policy and Urging Greater Efforts To Strive To Fulfill the Procurement Task by the End of December"]

[Text] To implement the guidelines of the Central Rural Work Conference and the requirements of a circular issued by two central offices and strengthen the macroeconomic regulation and control of grain work, the Jilin Provincial Government held a provincial work conference on grain procurement on January 13, 1994. Liu Xilin [0491 1585 2651], Standing Committee member of the provincial CPC committee and deputy governor, and Wang Guofa [3769 0948 4099], deputy governor, attended and spoke at the conference. Other responsible persons of various city (prefecture) governments and relevant departments at the provincial level also attended the conference.

After conscientiously analyzing the new situation facing the grain procurement work of 1994, participants at the conference set forth a general demand for doing a good job in the grain procurement work of 1994. That is to adhere to the open and flexible principle, strengthen macroeconomic regulation and control, pay equal consideration to the interests of the state, enterprises, and farmers, and pushing the provincial economy to develop still further. The general policy is to subsidize the quota procurement price, set a protective price for market transactions, further display the state's support for agriculture, and make farmers the real beneficiaries. Participants also demanded strict compliance of contracts and policies and urged greater efforts to strive to fulfill the grain procurement tasks by the end of December.

To do a good job in the grain procurement task in 1994, the conference clarified the following policy-related issues:

On the issue of quota grain procurement. First we should strictly enforce the grain quota assigned after the provincial government implemented the policy of "steady procurement and relaxed sale" and insist that farmers deliver the exact amount and type of grain specified in their contract to ensure the fulfillment of state-assigned procurement task. Second, we should continue to implement the policy of disaster reduction and exemption. Those who really need the exemption and reduction may be reported by the city or county government to the provincial government for approval in the later period of grain procurement. Third, we should implement the policy of subsidizing quota procurement prices. The State Council originally decided to distribute the benefits of linking chemical fertilizer and diesel in the form of price subsidies. Later, it changed to distributing such benefits mostly in the form of goods and some as price subsidies. Jilin Province has distributed some of the benefits to farmers in the form of goods and some as price subsidies. For instance, for 500 gram of standard

corn, the state pays 0.198 yuan and Jilin Province pays 0.03 yuan in subsidy, so the enforcing price for the quota procurement of standard corn is 0.228 yuan. For another instance, state price for 500 gram of standard rice is 0.351 yuan and the provincial subsidy is 0.023 yuan, so the enforcing price for the quota procurement of standard rice is 0.374 yuan. Fourth, we should adhere to the quota grain quality and variety policies. In other words, all localities should strictly enforce the quality standard for contracts on delivery of third-grade and above corn and rice. In quota procurement, the two major categories of rice and corn cannot be replaced for one another. In the delivery of quota grain, water content is not limited.

On the issue of special reserve grain procurement. The policy and quantity of special reserve grain have not been determined by the state. Arrangement will be made after the state makes a decision.

On the issue of free market grain procurement. The general principle for dealing with free market grain in Jilin Province is to place no restriction on the variety of grain, encourage multi-channel operation, and allow prices to float with the market. In the meantime, we should strengthen the macroeconomic regulation and control by the government and establish a protective price system to prevent great fluctuation of market price and protect farmers from low prices of grain. Concrete requirements are: 1) The province sets a minimum protective price, 0.21 yuan for 500 gram of standard corn and 0.31 yuan for rice. 2) A guidance plan for procuring a total of 5.8 billion kg of market corn should be transmitted to lower levels to satisfy market and export needs. 3) All localities should vigorously guide farmers in selling market grain to protect farmers' interest from being adversely affected by funds and market nearing the end of this year and the beginning of another year.

On the issue of grain procurement funds and account settlement. The general demand is that funds must be provided during contract procurement, special reserve, and market grain and oil transactions. Giving farmers "I owe you" is absolutely forbidden. All departments concerned must ensure timely and sufficient supply of funds according to the fund raising task assigned to them. When settling accounts, we must insist settling with each and every household after delivery and resolutely stop the practice of "general estimation." Grain departments are not allowed to deduct any charges except for the amount of purchase contract deposit and agricultural taxes.

On the issue of grain market management. The general principle is to adhere to opening up and revitalizing, to strengthen macroeconomic regulation and control, to ensure that the market is open but orderly and well managed but not stifled, to unclog circulation, and to accelerate production. Before the corn procurement task of a city or county is fulfilled, individuals and units other than grain departments are forbidden temporarily from

purchasing corn. Market for other varieties of grain is open during the period of grain procurement.

### Liaoning Rice Price

94CE0257T Beijing JINGJI CANKAO BAO in Chinese  
19 Jan 94 p 1

[Summary] At present, the average price of rice in 14 cities in Liaoning Province is below 1.36 yuan per kilogram.

### Jiangxi Aquatic Industry Output

94CE0303E Nanchang JIANGXI RIBAO in Chinese  
13 Jan 94 p 1

[Summary] In 1993 aquatic product output in Jiangxi Province exceeded 500,000 tons, a 21 percent increase over 1992. The output value of the fishery industry reached 2.27 billion yuan, a 30 percent increase over 1992. In 1993 the aquatic products breeding area was 4,328,600 mu, a 7.1 percent increase over 1992.

### Guizhou Grain Procurement

94CE0303D Guiyang GUIZHOU RIBAO in Chinese  
8 Jan 94 p 1

[Summary] As of 25 December, Guizhou Province had procured 413,406 tons of contract grain, fulfilling 82.6 percent of the annual plan.

### Guangxi Sugar Sales, Prices

94CE0303C Chongqing XINAN JINGJI RIBAO  
in Chinese 10 Jan 94 p 1

[Summary] As of 30 December, although Guangxi had only fulfilled 28 percent of the sugar output plan, refineries had sold 600,000 tons. First grade granulated sugar manufactured by carbonation is 3000 yuan per ton, sugar manufactured by sulfitation is 2900 yuan per ton, and fine grade sugar is about 3150 yuan per ton. Prices are about 200 yuan higher than in November. This pressing season, Guangxi will process 2.1 million tons of sugar.

### State Planning Commission on Forestry 'Crisis'

94CE0262B Beijing JINGJI RIBAO in Chinese  
9 Jan 94 p 5

[Letter to editor from Nie Zhenbang (5119 2182 6721) and Yao Changtian (1202 2490 1815) of the State Planning Commission's Office of Agricultural Economy]

[Text] Comrade Editor: Our state operated forestry areas consist primarily of the forests in the Northeast and Inner Mongolia, the southwest forests and small parcels of forest in the northwest. The combined state run forests employ over 1.5 million people, have a total population of some 4 million people, and fixed assets of over 16 billion yuan. Since the founding of the PRC,

state forests have produced for the nation some 1 billion cubic meters of lumber to ensure the needs of energy, railroads, disaster relief, major national construction projects and so forth, and continue to be responsible for the whole task of providing wood products under the state plan.

However, because forestry districts have not truly implemented the guidelines of the forestry operations as a basic policy, because investment in the forestry industry has been woefully inadequate, and product and industrial structure remain irrational, the pace of economic development in the state forestry regions has been slow. At present the following problems beset the state forestry regions.

1. There is a crisis in harvestable timber resources. For example, in the Northeast and Inner Mongolian State Forests the total area of harvestable mature and over-mature timber has decreased sharply. The area of harvestable mature and over-mature timber has fallen from a high of 12 million hectares at the time of Liberation to the present 5 million hectares, a drop of 53 percent. The reserves of harvestable mature and over-mature timber have been drastically reduced, from a high of 2 billion cubic meters at Liberation to the present 470 million cubic meters, a reduction of 76.5 percent. The quality of timber has also fallen. In the Heilongjiang forest districts, for instance, the average amount of reserves per hectare has fallen from a Liberation high of 143.2 cubic meters to the present 90 cubic meter level, a decline of 37.2 percent. The maturity structure of forests has also declined, middle and young growth now constitute almost 80 percent of total timber reserves.

At present, the resources of mature and over-mature timber which can be felled in all of the state run forests nationwide are quickly being depleted, and continued lumber production is becoming difficult.

2. Forestry enterprises are in an economic crunch. With the reduction in harvestable timber resources, lumber production has fallen year by year, and with other cost increases, in 1990 for the first time the state forests as a whole ran at a loss. After two increases in the price of lumber, by 1992 some 30.3 percent of the state forest regions were still losing money, losses amounted to 510 million yuan, definitely an economic problem. In 1992, some 42 percent of the enterprises in the state forest regions in the Northeast and Inner Mongolia were suffering losses to the tune of 400 million yuan. It was very common for enterprises to withhold and delay the payment of workers' wages. The Heilongjiang forestry system was some 440 million yuan in arrears for workers' wages; in the Mudanjiang forest region the average was five months in arrears, with some enterprises reaching seven months. There was no way for enterprises to purchase the coal, fuel oils, steel and other materials needed for production and construction. Work stoppages and visits to higher authorities occurred.

3. The social burden of enterprises is great. In the past several years nonoperational expenditures have skyrocketed; totalling some 1.55 billion yuan in 1992 for the state forest regions, accounting for 96.9 percent of the year's sales profits. The Heilongjiang Forestry Industry Main Bureau was a prime example, with nonoperational expenditures for its enterprises reaching 760 million yuan, 138 percent of that year's sales profit. The enterprises historical burden is extremely heavy. As of 1992 forestry enterprises in the state forestry regions were in arrears to their welfare funds in the amount of 1.06 billion yuan.

4. Enterprises have fallen far behind in building production and social facilities. For example, of the 82 forestry bureaus established in the Northeast and Inner Mongolian State Forest Regions, although all have general plans, only two bureaus have completed construction; all of the others, to one degree or another, are putting individual phases into production as they are completed, and have no comprehensive production capabilities. At present that forest region has 156 final phase lumber mills which have not been constructed, and almost 90,000 kilometers of road which should be but are not yet built. Living quarters for the workers are on the average less than four square meters, and most is unsophisticated housing built in the 1950s and 1960s.

To stimulate economic growth in state forestry regions, we suggest:

1. Continue reforms; create the conditions in structure and mechanisms to get the state forestry regions' industrial sector on the market economy track. In the near future we first must promote construction and completion of the four lumber industry conglomerates in the Northeast and Inner Mongolia; then use this reform as the starting point for comprehensive enhancement of the forestry industrial sector's overall strength, put to actual use the sector's internal superiority of mutual support, and the rational flow and allotment of funds, assets, resources and labor and other elements of production, which quite possibly might put life back into the entire sector. Second, we should comprehensively institute asset management of the state forestry resources among the Northeast and Inner Mongolian regions' enterprises, making a true division between their rights of ownership and their rights of use, and assure recompense for managing state forests. This will not only solve the problem of "one big rice bowl" in the state forests, but also possibly guarantee the continued existence of the forests.

2. Taking the market as the guide, efficiency as the heart, adjust the industrial structure and the product structure of the state forest regions. In adjusting these, we must turn to the international and domestic markets, but do it in light of the actual conditions in the state forest regions. First we must set our goals, seek new growth potential for economic expansion. While not exacerbating the consumption of forest resources, concentrate investment appropriately, disposing it according to

sector policies and industrial plans, arrange for the construction of a number of artificial board and paper mills. Regarding the newly established or expanded forestry regions responsible for developing forests, we should set up, in synchronization with these undertakings, timbering and transportation and in appropriate scale, forestry byproducts and pulp and paper and related industries. As regards forestry timbering and transportation facilities being built which already have the necessary conditions, we can try to restructure their industrial structure while they are still in the process of being built.

3. The state must increase investment in forestry enterprises. This includes increases in potable water in forest regions, medical facilities, rehabilitation of condemned buildings, and other noneconomic operational investments; increases in operational type investments in developing artificial board plants, paper mills and other large and medium construction projects. Increase investment in forestry management, to include use of World Bank loans and other international financial institutions to speed up the nurturing of forestry resources.

In addition, funds in the state budget and societal funds including foreign funds invested in the forestry sector must all be used for sectorial development. The state should continue to implement the relevant preferential treatment policies; and state regulated prices for wood products from the state forest regions should be deregulated as soon as possible.

### Outlook for Timber Industry

94CE0205B Beijing ZHONGGUO WUZI BAO  
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[Article by the Nonmetallic Materials Section of the Domestic Trade Department: "The Temporary Relief of Timber Shortage Has Ended; Prospects for Plywood Are Great"]

[Text] 1. Timber Resources Will Become Tight, Prices Will Be Stable and Expected To Rise

After a comprehensive analysis of national economic developments, the state's macroeconomic regulation and control policies, and changes in the international timber market, we believe that in this year and the next year resources on the timber market will be tight, demand will pick up steadily, and prices will also change from current falling to stabilizing and rising situation.

1. Timber supply and demand contradiction becomes intense. It is predicted that the temporary relief of resource shortage will end in early 1994 and the supply and demand contradiction will gradually worsen. In the third quarter of 1993, due to the function of market mechanism, social demand declined, giving rise to a situation where resources appeared to be ample. However, this balance of supply and demand was merely a fake phenomenon during the period of shrinking purchasing power. The 1994 social timber balancing plan



shows that the gap between timber resources and social demand is approximately 1.6 million cubic meters. First, judging from the domestic market, national forests in northeast China and Nei Mongol already reached the rational fixed production level of 19.17 million cubic meters in 1993. Domestic timber output is unlikely to increase substantially in 1994, but social demand will increase markedly along with the rapid growth of the national economy. Second, judging from the international timber market, the Clinton Administration has decided to ban the deforestation of 80 percent of virgin forests on 23 million acres of federal forest land in the western United States. This, plus other negative factors, such as slowing deforestation activities in Canada, increasing log restrictions in Asia, and declining export of timber from Africa and South America, are bound to affect the market supply of timber which has become increasingly dependent on the international market. Third, judging from experience, China's timber shortage will not be easily corrected over a relatively long period of time. The insufficient market supply of timber is the major contradiction, which will also exist for a long time.

2. Timber prices will stabilize while falling. In the fourth quarter and next year, the trend will be affected by many factors, both up and down factors. Factors that will cause timber prices to go up mainly include: 1) Along with the implementation of state macroeconomic regulation and control measures and the improvement of financial order, the production fund shortage of key state construction projects and production enterprises are expected to somewhat improve, and the evolution of the supply and demand contradiction will provide a good opportunity for the increase of timber prices. 2) Beginning 1 July 1993, railroad freight charges went up from 0.385 yuan per ton kilometer to 0.535 yuan, jacking up the cost of timber purchases. 3) The timber price of the international market has gone up again. Between mid-August and mid-September, the log price on the November future market of Chicago increased about 18 percent and the price for 1,000 square foot reached \$316. The price of domestic forest zones has also remained at a fairly high level. Factors causing timber prices to decline mainly include: 1) The state macroeconomic regulation and control policy has achieved temporary success, and the function and effect of such success will continue for a fairly long period of time in the sphere of the economy. 2) The price of timber substitutes—steel and nonferrous metal—has fallen to a low level. 3) The large inventory of timber management units has played a

definite role in suppressing market prices. 4) The mentality of timber users who buy when prices are high, not low, has to a certain degree worsened the falling trend of timber prices.

To sum up the above analysis, we believe that the basic trend of timber market price in 1993 and 1994 will rise gradually during 1994 while stabilizing. But it will not increase as it did in the first half of 1993.

## II. Plywood Import Will Gradually End Fluctuation

In the first half of 1993, resources of plywood import were very tight, prices were sky-high, and plywood import became the hot spot of business. In the third quarter of 1993, due to the influence of falling prices of timber and other capital goods, the prices of imported plywood declined somewhat. However, compared to the beginning of 1993, demand for imported plywood remains stable and the prices fairly high.

1. Regarding the delivery and cost of imported plywood, in the first three quarters of 1993, the total amount of plywood imported by all harbors of China decreased 21.7 percent as compared to that of the corresponding period of 1992. Resources were tight. In the first three quarters of 1993, harbors in northern China witnessed marked increase in the import of plywood, but the cost of imports remained high. Calculated according to the current regulatory exchange rate (1:8.6), the cost, insurance, and freight, after deducting other charges, was 66.7 yuan per sheet (specifications: 1,220 by 2,440 by 3mm). This is basically the same as the cost after April.

2. After analyzing plywood import in the fourth quarter of 1993 and in 1994, we can come to the conclusion that it is certain that the resources of imported plywood will become tighter. Since the International Tropical Forest Organizations demanded that Malaysia reduced plywood export by 1.5 million cubic meters respectively in 1992 and 1993 and Indonesia recently put strict control over the quota of plywood export to China, our initial estimate is that our plywood import this year will be 20 percent less than that in last year. Second, domestic and international demands for South Pacific plywood has increased substantially. New house construction rate in the United States has increased 2 percent as compared to 1992; over 1.2 million houses will be built in Japan; and Korea has joined the competition for resources in the plywood market. Additionally, the peak season of remodeling and decorating in urban and rural areas of China at the end of this year and the beginning of next year is bound to fan demand for imported plywood. Because of this, we predict that the market of imported plywood will not slide substantially by yearend or at the beginning of next year. The prices of imported plywood will also rise from the current level.

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